

SECURITY NATIONAL FINANCIAL CORP
Form 10-K
March 29, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2012, or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934f
For the Transition Period from _____ to _____

Commission file number 000-09341

SECURITY NATIONAL FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

UTAH 87-0345941
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

5300 South 360 West, Suite 250 Salt Lake City, Utah 84123
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (801) 264-1060

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Class A Common Stock, \$2.00 Par Value	Nasdaq National Market
Class C Common Stock, \$0.20 Par Value	None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. []

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer Accelerated filer [] Nonaccelerated filer Smaller reporting
[] [] company [X]
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [] No [X]

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and ask price of such common equity, as of the last business date of the registrant's most recently completed second fiscal quarter. \$7,057,000.

As of March 27, 2013, there were outstanding 10,946,488 shares of Class A Common Stock, \$2.00 par value per share, and 11,398,388 shares of Class C Common Stock, \$.20 par value per share.

Documents Incorporated by Reference

None.

Item 1. Business

Security National Financial Corporation (the “Company”) operates in three main business segments: life insurance, cemetery and mortuary, and mortgage loans. The life insurance segment is engaged in the business of selling and servicing selected lines of life insurance, annuity products and accident and health insurance. These products are marketed in 38 states through a commissioned sales force of independent licensed insurance agents who may also sell insurance products of other companies. The cemetery and mortuary segment of the Company consists of five cemeteries in the state of Utah and one cemetery in the state of California, and seven mortuaries in the state of Utah and one mortuary in the state of Arizona. The Company also engages in pre-need selling of funeral, cemetery, mortuary and cremation services through its Utah, Arizona and California operations. Many of the insurance agents also sell pre-need funeral, cemetery and cremation services. The mortgage loan segment is an approved government and conventional lender that originates and underwrites or otherwise purchases residential and commercial loans for new construction, existing homes and real estate projects. The mortgage loan segment operates through 91 wholesale and retail offices in nineteen states, and is an approved mortgage lender in several other states.

The design and structure of the Company are that each business segment is related to the other business segments and contributes to the profitability of the other segments. Because of the Company’s cemetery and mortuary operations in Utah, California and Arizona, the Company enjoys a level of public awareness that assists in the sales and marketing of insurance and pre-need cemetery and funeral products. The Company’s insurance subsidiaries invest their assets (representing, in part, the pre-paid funerals) in investments authorized by the respective insurance departments of their states of domicile. One such investment authorized by insurance departments is mortgage loans. Thus, while each business segment is a profit center on a stand-alone basis, this horizontal integration of each segment is planned to lead to improved profitability of the Company. The Company also pursues growth through acquisitions. The Company’s acquisition business strategy is based on reducing the overhead cost of the acquired company by utilizing the Company’s existing personnel, management, and technology while still providing quality service to customers and policyholders.

The Company was organized as a holding company in 1979, when Security National Life Insurance Company (“Security National Life”) became a wholly owned subsidiary of the Company and the former stockholders of Security National Life became stockholders of the Company. Security National Life was formed in 1965 and has grown through the direct sales of life insurance and annuities, and through the acquisition of other insurance companies.

The cemetery and mortuary operations have also grown through the acquisition of other cemetery and mortuary companies. In 1989, the Company acquired Paradise Chapel Funeral Home, Inc. and, in 1991, it acquired Holladay Memorial Park, Inc., Cottonwood Mortuary, Inc. and Deseret Memorial, Inc. In 1993, the Company formed SecurityNational Mortgage Company (“SecurityNational Mortgage”) to originate and refinance residential mortgage loans. See Note 14 of the Notes to Consolidated Financial Statements for additional information regarding segments of the business.

Life Insurance

Products

The Company, through Security National Life and its insurance subsidiaries, Memorial Insurance Company of America (“Memorial Insurance Company”), Southern Security Life Insurance Company (“Southern Security”) and Trans-Western Life Insurance Company (“Trans-Western”), issues and distributes selected lines of life insurance and annuities. The Company’s life insurance business includes funeral plans, and interest-sensitive life insurance, as well as other traditional life, accident and health insurance products. The Company places specific marketing emphasis on funeral plans through pre-need planning.

A funeral plan is a small face value life insurance policy that generally has face coverage of up to \$25,000. The Company believes that funeral plans represent a marketing niche that has lower competition because most insurance companies do not offer similar coverage. The purpose of the funeral plan policy is to pay the costs and expenses incurred at the time of a person's death. On a per thousand dollar cost of insurance basis, these policies can be more expensive to the policyholder than many types of non-burial insurance due to their low face amount, requiring the fixed cost of the policy administration to be distributed over a smaller policy size, and the simplified underwriting practices that result in higher mortality costs.

Markets and Distribution

The Company is licensed to sell insurance in 38 states. The Company, in marketing its life insurance products, seeks to locate, develop and service specific “niche” markets. A “niche” market is an identifiable market that the Company believes is not emphasized by most insurers. Funeral plan policies are sold primarily to persons who range in age from 45 to 85. Even though people of all ages and income levels purchase funeral plans, the Company believes that the highest percentage of funeral plan purchasers are individuals who are older than 45 and have low to moderate income.

A majority of the Company’s funeral plan premiums come from the states of Arkansas, Louisiana, Mississippi, Oklahoma, Tennessee, Texas and Utah.

The Company sells its life insurance products through direct agents, brokers and independent licensed agents who may also sell insurance products of other companies. The commissions on life insurance products range from approximately 50% to 120% of first year premiums. In those cases where the Company utilizes its direct agents in selling such policies, those agents customarily receive advances against future commissions.

In some instances, funeral plan insurance is marketed in conjunction with the Company’s cemetery and mortuary sales force. When it is marketed by that group, the beneficiary is usually the Company’s cemeteries and mortuaries. Thus, death benefits that become payable under the policy are paid to the Company’s cemetery and mortuary subsidiaries to the extent of services performed and products purchased.

In marketing funeral plan insurance, the Company also seeks and obtains third-party endorsements from other cemeteries and mortuaries within its marketing areas. Typically, these cemeteries and mortuaries will provide letters of endorsement and may share in mailing and other lead-generating costs. The incentive for such businesses to share the costs is that these businesses are usually made the beneficiary of the policy. The following table summarizes the life insurance business for the five years ended December 31, 2012:

	2012		2011		2010		2009		2008
Life Insurance									
Policy/Cert. Count as of December 31	502,978	(4)	414,411	(3)	398,774		407,673		415,656 (2)
Insurance in force as of December 31 (omitted 000)	\$ 2,913,419	(4)	\$ 2,969,648	(3)	\$ 3,003,622		\$ 2,617,946		\$ 2,454,409 (2)
Premiums Collected (omitted 000)	\$ 48,168		\$ 47,982	(3)	\$ 38,579		\$ 38,399	(2)	\$ 36,063 (1)

- (1) Includes the purchase of Capital Reserve Life Insurance Company on December 17, 2007.
- (2) Includes the purchase of Southern Security Life Insurance Company on December 18, 2008.
- (3) Includes the assumption reinsurance of North America Life Insurance Company on March 30, 2011.
- (4) Includes coinsurance with Mothe Life Insurance Company on December 19, 2012.

Underwriting

The Factors considered in evaluating an application for ordinary life insurance coverage can include the applicant's age, occupation, general health and medical history. Upon receipt of a satisfactory (non-funeral plan insurance) application, which contains pertinent medical questions, the Company writes insurance based upon its medical limits and requirements subject to the following general non-medical limits:

A g e N e a r e s t Non-Medical Limits
Birthday

0-50	\$100,000
51-up	Medical information required (APS or exam)

When underwriting life insurance, the Company will sometimes issue policies with higher premium rates for substandard risks.

The Company's funeral plan insurance is written on a simplified medical application with underwriting requirements being a completed application, a phone inspection on selected applicant and a Medical Information Bureau inquiry. There are several underwriting classes in which an applicant can be placed.

Annuities

Products

The Company's annuity business includes single premium deferred annuities, flexible premium deferred annuities and immediate annuities. A single premium deferred annuity is a contract where the individual remits a sum of money to the Company, which is retained on deposit until such time as the individual may wish to annuitize or surrender the contract for cash. A flexible premium deferred annuity gives the contract holder the right to make premium payments of varying amounts or to make no further premium payments after his initial payment. These single and flexible premium deferred annuities can have initial surrender charges. The surrender charges act as a deterrent to individuals who may wish to surrender their annuity contracts.

Annuities have guaranteed interest rates that range from 1% to 6.5% per annum. Above that, the interest rate credited is periodically determined by the Board of Directors at their discretion. An immediate annuity is a contract in which the individual remits to the Company a sum of money in return for the Company's obligation to pay a series of payments on a periodic basis over a designated period of time, such as an individual's life, or for such other period as may be designated.

Holders of annuities generally enjoy a significant benefit under current federal income tax law in that interest accretions that are credited to the annuities do not incur current income tax expense on the part of the contract holder. Instead, the interest income is tax deferred until such time as it is paid out to the contract holder. In order for the Company to realize a profit on an annuity product, the Company must maintain an interest rate spread between its investment income and the interest rate credited to the annuities. Commissions, issuance expenses and general and administrative expenses are deducted from this interest rate spread.

Markets and Distribution

The general market for the Company's annuities is middle to older age individuals who wish to save or invest their money in a tax-deferred environment, having relatively high yields. The major source of annuity considerations comes from direct agents. Annuities are also sold in conjunction with other insurance sales. If an individual does not qualify for a funeral plan due to health considerations, the agent will often sell that individual an annuity to fund those final expenses.

The following table summarizes the annuity business for the five years ended December 31, 2012:

	2012	2011	2010	2009	2008	
Annuities Policy/Cert. Count as of December 31	12,320	11,313 (3)	12,344	12,366	11,411	(2)
Deposits Collected (omitted 000)	\$ 6,777	\$ 5,757 (3)	\$ 6,166	\$ 6,737	\$ 8,959	(1)(2)

(1) Includes the purchase of Capital Reserve Life Insurance Company on December 17, 2007.

(2)

Includes the purchase of Southern Security Life Insurance Company on December 18, 2008.

- (3) Includes the assumption reinsurance of North America Life Insurance Company on March 30, 2011.

Accident and Health

Products

Prior to the acquisition of Capital Investors in 1994, the Company did not actively market accident and health products. With the acquisition of Capital Investors, the Company acquired a block of accident and health policies that pay limited benefits to policyholders. The Company is currently offering low-cost comprehensive diver's accident policies. These policies provide worldwide coverage for medical expense reimbursement in the event of diving accidents.

Markets and Distribution

The Company currently markets its accident policies through web marketing.

The following table summarizes the accident and health insurance business for the five years ended December 31, 2012:

	2012	2011	2010	2009	2008
Accident and Health Policy/Cert.					
Count as of December 31	7,291	8,268	9,269	13,436	14,060
Premiums Collected (omitted 000)	\$158	\$175	\$203	\$219	\$232

Reinsurance

The primary purpose of reinsurance is to enable an insurance company to write a policy in an amount larger than the risk it is willing to assume for itself. The Company remains obligated for amounts ceded in the event the reinsurers do not meet their obligations.

The Company currently cedes and assumes certain risks with various authorized unaffiliated reinsurers pursuant to reinsurance treaties, which are renewable annually. The premiums paid by the Company are based on a number of factors, primarily including the age of the insured and the risk ceded to the reinsurer.

The Company's policy is to retain no more than \$100,000 of ordinary insurance per insured life. Excess risk is reinsured. The total amount of life insurance in force at December 31, 2012, reinsured by other companies, aggregated \$92,484,000, representing approximately 3.2% of the Company's life insurance in force on that date.

See "Management's Discussion and Analysis of Results of Operations and Financial Condition" and "Notes to Consolidated Financial Statements" for additional disclosure and discussion regarding reinsurance.

Investments

The investments that support the Company's life insurance and annuity obligations are determined by the Investment Committee of the Board of Directors of the various subsidiaries and ratified by the full Board of Directors of the respective subsidiaries. A significant portion of the investments must meet statutory requirements governing the nature and quality of permitted investments by insurance companies. The Company's interest-sensitive type products, primarily annuities and interest-sensitive whole life, compete with other financial products such as bank certificates of deposit, and brokerage sponsored money market funds as well as competing life insurance company products. Although it is not the Company's policy to offer the highest yield in this economic climate, in order to offer what the Company considers to be a competitive yield, it maintains a diversified portfolio consisting of common stocks, preferred stocks, municipal bonds, investment and non-investment grade bonds, mortgage loans, real estate, short-term investments and other securities and investments.

See "Management's Discussion and Analysis of Results of Operations and Financial Condition" and "Notes to Consolidated Financial Statements" for additional disclosure and discussion regarding investments.

Cemetery and Mortuary

Products

The Company has six wholly-owned non-denominational cemeteries and eight wholly-owned mortuaries. Through its cemetery and mortuary operations, the Company markets a variety of products and services both on a pre-need basis (prior to death) and an at-need basis (at the time of death). The products include plots, interment vaults, mausoleum crypts and niches, markers, caskets, flowers and other related products. The services include professional services of

funeral directors, opening and closing of graves, use of chapels and viewing rooms, and use of automobiles and clothing. The Company has a funeral chapel at each of its cemeteries, other than Holladay Memorial Park and Singing Hills Memorial Park, and has four separate stand-alone mortuary facilities.

Markets and Distribution

The Company's pre-need cemetery and mortuary sales are marketed to persons of all ages but are generally purchased by persons 45 years of age and older. The Company is limited in its geographic distribution of these products to areas lying within an approximate 20-mile radius of its mortuaries and cemeteries. The Company's at-need sales are similarly limited in geographic area.

The Company actively seeks to sell its cemetery and funeral products to customers on a pre-need basis. The Company employs cemetery sales representatives on a commission basis to sell these products. Many of these pre-need cemetery and mortuary sales representatives are also licensed insurance salesmen and sell funeral plan insurance. In many instances, the Company's cemetery and mortuary facilities are the named beneficiary of the funeral plan policies.

Potential customers are located via telephone sales prospecting, responses to letters mailed by the pre planning consultants, newspaper inserts, referrals, and door-to-door canvassing. The Company trains its sales representatives and generates leads for them.

Mortgage Loans

Products

Beginning in 1993, the Company, through its wholly owned subsidiary, SecurityNational Mortgage Company (“SecurityNational Mortgage”), has been active in the residential real estate market. The Company has current approvals through HUD, Fannie Mae, Freddie Mac and other substantial secondary market investors, which enable it to originate a variety of residential mortgage loan products that are subsequently sold to investors. The Company also uses internal and external funding sources with unaffiliated financial institutions.

Security National Life, an affiliate of SecurityNational Mortgage, originates commercial real estate loans both for internal investment as well as for sale to unaffiliated investors and also originates residential construction loans.

Markets and Distribution

The Company’s residential mortgage lending services are marketed primarily to mortgage originators. SecurityNational Mortgage maintains a majority of its retail origination presence in the Utah, Florida, California, Illinois and Texas markets in addition to four wholesale branch offices located in California, Florida, Texas and Utah, with sales representatives in these and other states. See “Management’s Discussion and Analysis of Results of Operations and Financial Condition” and “Notes to Consolidated Financial Statements” for additional disclosure and discussion regarding mortgage loans.

Recent Acquisitions and Other Business Activities

Reinsurance with Mothe Life Insurance Company and DLE Life Insurance Company

On December 19, 2012, the Company, through its wholly owned subsidiary, Security National Life, entered into a Coinsurance Agreement with Mothe Life Insurance Company, a Louisiana domiciled insurance company, and a subsidiary, DLE Life Insurance Company, also a Louisiana domiciled life insurance company (collectively referred to as “Mothe Life”). The effective date of the Coinsurance Agreement was November 1, 2012. Under the terms of the Coinsurance Agreement, Security National Life agreed to reinsure certain insurance policies of Mothe Life in exchange for the settlement amount of \$34,485,000. In addition, the Coinsurance Agreement provided that effective November 1, 2012, Mothe Life ceded and transferred to Security National Life, and Security National Life accepted and coinsured all of Mothe Life’s contractual liabilities under the coinsured policies by means of indemnity reinsurance. On December 18, 2012, the Louisiana Department of Insurance approved the Coinsurance Agreement.

The Coinsurance Agreement further provided that on and after the effective date of November 1, 2012, Security National Life was entitled to exercise all contractual rights of Mothe Life under the coinsured policies in accordance with the terms and provisions of such policies. Moreover, after the closing date of December 19, 2012, the Company agreed to be responsible for all the contractual liabilities under the coinsured policies, including the administration of the coinsured policies at its sole expense in accordance with the terms and conditions of a Service Agreement between Security National Life and Mothe Life. Pursuant to the terms of the Coinsurance Agreement, Security National Life paid a ceding commission to Mothe Life in the amount of \$4,684,000. As a result of the ceding commission, Mothe Life transferred \$34,485,000 in assets and \$39,169,000 in statutory reserves, or liabilities, to Security National Life.

Reinsurance with North America Life Insurance Company

On March 30, 2011, the Company, through its wholly owned subsidiary, Security National Life, completed a Coinsurance Agreement with North America Life Insurance Company (“North America Life”), a Texas domiciled insurance company. Under the terms of the Coinsurance Agreement, Security National Life agreed to reinsure certain insurance policies of North America Life in exchange for the settlement amount of \$15,703,000. Effective as of December 1, 2010, North America Life ceded or transferred to Security National Life, and Security National Life accepted and coinsured all of North America Life’s contractual liabilities under the coinsured policies by means of indemnity reinsurance. The Coinsurance Agreement was approved by the Texas Department of Insurance.

The Coinsurance Agreement also provides that on and after the effective date of December 1, 2010, Security National Life is entitled to exercise all contractual rights of North America Life under the coinsured policies in accordance with the terms and provisions of such policies. Moreover, after the closing date of March 30, 2011, the Company agreed to be responsible for all the contractual liabilities under the coinsured policies, including the administration of the coinsured policies at its sole expense in accordance with the terms and conditions of a services agreement. Pursuant to the terms of the Coinsurance Agreement, Security National Life paid a ceding commission to North America Life in the amount of \$3,526,000. In addition, North America Life transferred \$15,703,000 in assets and \$19,230,000 in statutory reserves, or liabilities net of due and deferred premiums, to Security National Life. The \$15,703,000 in assets included \$12,990,000 in cash, \$9,000 in policy loans, and \$2,704,000 in promissory notes secured by real estate properties located in Bexar, Liberty, Travis and Wilson Counties in the State of Texas. The promissory notes are also guaranteed by business entities and an individual.

On September 1, 2011, Security National Life with the approval of the Texas Department of Insurance assumed all of the policies which were issued by North America Life previously assumed and coinsured pursuant to the terms of the Coinsurance Agreement. Security National Life has assumed the same terms and conditions as set forth in each policy and certificates of assumptions were sent to all policyholders.

On August 31, 2011, the Company entered into a Stock Purchase Agreement with North America Life to purchase all of the outstanding shares of common stock of Trans-Western Life Insurance Company (“Trans-Western”), a Texas domiciled insurance company and a wholly-owned subsidiary of North America Life. The Company completed the Stock Purchase Agreement on May 2, 2012. The purchase consideration paid was \$494,000, which was equal to the capital and surplus of Trans-Western on May 2, 2012. On March 20, 2012, the Texas Insurance Department approved the Stock Purchase Agreement, and all of Trans-Western’s insurance business was ceded to North America Life, of which approximately 47% of the insurance in force was assumed by the Company under the Coinsurance Agreement as described in Note 9 of the Notes to Consolidated Statements. As part of the stock purchase agreement, the Company recaptured the 47% of insurance in force.

Regulation

The Company’s insurance subsidiaries, Security National Life, Memorial Insurance Company, Southern Security and Trans-Western are subject to comprehensive regulation in the jurisdictions in which they do business under statutes and regulations administered by state insurance commissioners. Such regulation relates to, among other things, prior approval of the acquisition of a controlling interest in an insurance company; standards of solvency which must be met and maintained; licensing of insurers and their agents; nature of and limitations on investments; deposits of securities for the benefit of policyholders; approval of policy forms and premium rates; periodic examinations of the affairs of insurance companies; annual and other reports required to be filed on the financial condition of insurers or for other purposes; and requirements regarding aggregate reserves for life policies and annuity contracts, policy claims, unearned premiums, and other matters. The Company’s insurance subsidiaries are subject to this type of regulation in any state in which they are licensed to do business. Such regulation could involve additional costs, restrict operations or delay implementation of the Company’s business plans.

The Company is currently subject to regulation in Utah, Arkansas, Mississippi and Texas under insurance holding company legislation, and other states where applicable. Generally, intercompany transfers of assets and dividend payments from insurance subsidiaries are subject to prior notice of approval from the state insurance department, if they are deemed “extraordinary” under these statutes. The insurance subsidiaries are required, under state insurance laws, to file detailed annual reports with the supervisory agencies in each of the states in which they do business. Their business and accounts are also subject to examination by these agencies.

The Company's cemetery and mortuary subsidiaries are subject to the Federal Trade Commission's comprehensive funeral industry rules and to state regulations in the various states where such operations are domiciled. The morticians must be licensed by the respective state in which they provide their services. Similarly, the mortuaries and cemeteries are governed and licensed by state statutes and city ordinances in Utah, Arizona and California. Reports are required to be kept on file on a yearly basis which include financial information concerning the number of spaces sold and, where applicable, funds provided to the Endowment Care Trust Fund. Licenses are issued annually on the basis of such reports. The cemeteries maintain city or county licenses where they conduct business.

The Company's mortgage subsidiary, SecurityNational Mortgage, is subject to the rules and regulations of the U.S. Department of Housing and Urban Development and to various state licensing acts and regulations. These regulations, among other things, specify minimum capital requirements, the procedures for the origination, the underwriting, the licensing of wholesale brokers, quality review audits and the amounts that can be charged to borrowers for all FHA and VA loans. Each year, the Company must have an audit by an independent registered public accounting firm to verify compliance under these regulations. In addition to the government regulations, the Company must meet loan requirements of various investors who purchase the loans.

Income Taxes

The Company's insurance subsidiaries, Security National Life, Memorial Insurance Company, Southern Security and Trans-Western are taxed under the Life Insurance Company Tax Act of 1984. Under the act, life insurance companies are taxed at standard corporate rates on life insurance company taxable income. Life insurance company taxable income is gross income less general business deductions, reserves for future policyholder benefits (with modifications), and a small life insurance company deduction (up to 60% of life insurance company taxable income). The Company may be subject to the corporate Alternative Minimum Tax (AMT). The exposure to AMT is primarily a result of the small life insurance company deduction. Also, under the Tax Reform Act of 1986, distributions in excess of stockholders' surplus account or a significant decrease in life reserves will result in taxable income.

Security National Life, Memorial Insurance Company, Southern Security and Trans-Western may not receive the benefit of the small life insurance company deduction. In order to qualify for the small company deduction, the combined tax assets of the Company must be less than \$500,000,000 and the taxable income of the life insurance companies must be less than \$3,000,000 on a tax accounting basis. To the extent that the net income limitation is exceeded, the small life insurance company deduction is phased out over the next \$12,000,000 of life insurance company taxable income. The combined tax assets of the Company exceeded \$500,000,000 as of December 31, 2012.

Since 1990 Security National Life, Memorial Insurance Company, Southern Security and Trans-Western have computed their life insurance taxable income after establishing a provision representing a portion of the costs of acquisition of such life insurance business. The effect of the provision is that a certain percentage of the Company's premium income is characterized as deferred expenses and recognized over a five to ten year period.

The Company's non-life insurance company subsidiaries are taxed in general under the regular corporate tax provisions. For taxable years beginning January 1, 1987, the Company may be subject to the Corporate Alternative Minimum Tax under the Tax Reform Act of 1986.

Competition

The life insurance industry is highly competitive. There are approximately 2,000 legal reserve life insurance companies in business in the United States. These insurance companies differentiate themselves through marketing techniques, product features, price and customer service. The Company's insurance subsidiaries compete with a large number of insurance companies, many of which have greater financial resources, a longer business history, and more diversified line of insurance coverage than the Company. In addition, such companies generally have a larger sales force. Further, many of the companies with which the Company competes are mutual companies which may have a competitive advantage because all profits accrue to policyholders. Because the Company is small by industry standards and lacks broad diversification of risk, it may be more vulnerable to losses than larger, better-established companies. The Company believes that its policies and rates for the markets it serves are generally competitive.

The cemetery and mortuary industry is also highly competitive. In Salt Lake City, Phoenix and San Diego areas where the Company competes, there are a number of cemeteries and mortuaries which have longer business histories, more established positions in the community, and stronger financial positions than the Company. In addition, some of the cemeteries with which the Company must compete for sales are owned by municipalities and, as a result, can offer lower prices than can the Company. The Company bears the cost of a pre-need sales program that is not incurred by those competitors which do not have a pre-need sales force. The Company believes that its products and prices are generally competitive with those in the industry.

The mortgage industry is highly competitive with a large number of mortgage companies and banks in the same geographic area in which the Company is operating. The mortgage industry in general is sensitive to changes in

interest rates and the refinancing market is particularly vulnerable to changes in interest rates.

Employees

As of December 31, 2012, the Company had 933 full-time and 299 part-time employees.

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Item 2. Properties

The following table sets forth the location of the Company's office facilities and certain other information relating to these properties.

Street	City	State	Function	Owned Leased	Approximate Square Footage	Lease Amount	Expiration
5300 South 360 West	Salt Lake City	UT	Corporate Headquarters	Owned	30,317	\$356,760/	yr month to month
755 Rinehart Road	Lake Mary	FL	Mortgage Sales	Owned	9,348	\$121,151/	yr month to month
3935 I-55 South, Frontage Road	Jackson	MS	Insurance Operations	Owned	12,000	\$84,000/	yr month to month
5247 Greenpine Drive	Murray	UT	Cemetery & Insurance Sales	Owned	1,700	\$3,106/	mo month to month
497-A Sutton Bridge Road	Rainbow City	AL	Fast Funding Operations	Leased	5,500	\$26,400/	yr 06/30/14
5701 Talavi Blvd. #155	Glendale	AZ	Mortgage Sales	Leased	2,214	\$45,500/	yr 05/06/15
5100 Birch Street Suite 200	Newport Beach	CA	Mortgage Sales	Leased	112	\$500/	mo month to month
27433 Tourney Road Suite 220	San Clarita	CA	Mortgage Sales	Leased	3,407	\$72,000/	yr 07/31/15
421 S. Cataract	San Dimas	CA	Mortgage Sales	Leased	6,200	\$74,400/	yr 03/31/13
4380 S. Syracuse Street	Denver	CO	Mortgage Sales	Leased	95,965	\$1,513/	mo 08/31/13
400 Inverness Parkway Suite #238	Englewood	CO	Mortgage Sales	Leased	235	\$1,400/	mo month to month
8191 College Parkway Suite 201	Ft Myers	FL	Mortgage Sales	Leased	1,704	\$16,188/	yr 10/31/14
2435 US Highway 19 North Suite #208	Holiday	FL	Mortgage Sales	Leased	305	\$250/	mo month to month
905 Lee Road	Orlando	FL	Mortgage Sales	Leased	201	\$300/	mo month to month
200 9th Avenue N, Ste 200	Safety Harbor,	FL	Mortgage Sales	Leased	3,591	\$57,065/	yr 05/31/15
970 No. Kalaheo Ave, Suite A-214	Kailua	HI	Mortgage Sales	Leased	665	\$19,094/	yr month to month
1540 W North Ave. #2	Chicago	IL	Mortgage Sales	Leased	1,000	\$19,800/	yr month to month
1016 W Jackson Blvd Suites 503&505	Chicago	IL	Mortgage Sales	Leased	1,000	\$3,000/	mo month to month
7227 West Madison Street Suite F	Forest Park	IL	Mortgage Sales	Leased	1,800	\$8,400/	yr month to month
1200 Jorie Blvd #220	Oak Brook	IL	Mortgage Sales	Leased	4,763	\$84,940/	yr 10/31/14
16744 Oak Park Ave	Tinley Park	IL	Mortgage Sales	Leased	500	\$499/	mo month to month
6813 Hobson Valley Drive #104	Woodridge	IL	Mortgage Sales	Leased	1,000	\$3,000/	yr month to month
		KS	Mortgage Sales	Leased	2,800	\$55,100/	yr 01/31/13

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6900 College Blvd., Suite 950	Overland Park								
6900 Houston Rd. #21 & 22	Florence	KY	Mortgage Sales	Leased	1,700	\$1,900/	mo	month to month	
4401 N. I-10 Service Rd. Suite 104	Metairie	LA	Mortgage Sales	Leased	507	\$7,200/	yr	09/30/13	
150 A Andover Street	Danvers	MA	Mortgage Sales	Leased	2,138	\$28,863/	yr	05/30/13	
12977 North Forty Drive Ste 203	St. Louis	MO	Mortgage Sales	Leased	2,933	\$50,881/	yr	11/30/14	
1400 Battleground Ave #202-A	Greensboro	NC	Mortgage Sales	Leased	260	\$238/	mo	07/31/13	
8601 Six Forks Rd.	Raleigh	NC	Mortgage Sales	Leased	160	\$799/	mo	09/30/13	
127 Village Rd	Shallotte	NC	Mortgage Sales	Leased	500	\$3,000/	yr	05/31/13	
142 Main Street	Nashua	NH	Mortgage Sales	Leased	500	\$9,000/	yr	01/31/13	
60 Main Street Suite 322	Nashua	NH	Mortgage Sales	Leased	1,000	\$14,256/	yr	07/01/14	
212 West Route 38 #200	Moorestown	NJ	Mortgage Sales	Leased	500	\$5,100/	yr	08/14/13	
6540 South Pecos Road, Building A, Suite 104	Clark County	NV	Mortgage Sales	Leased	2,802	\$2,662/	mo	10/31/14	
375 N Stephanie #2311	Henderson	NV	Mortgage Sales	Leased	3,938	\$47,256/	yr	08/31/14	
2370 Corporate Circle, Suite 200	Henderson	NV	Mortgage Sales	Leased	7,741	\$169,063/	yr	12/01/17	
3285 North Fort Apache Road	Las Vegas	NV	Mortgage Sales	Leased	1,000	\$11,500/	mo	month to month	
3275 N Fort Apache Rd, Suite #150	Las Vegas	NV	Mortgage Sales	Leased	2,000	\$2,448/	mo	06/15/13	
3406 S Durango Dr #100	Las Vegas	NV	Mortgage Sales	Leased	3,165	\$34,182/	yr	07/31/15	
9330 W. Sahara Ave #270	Las Vegas	NV	Mortgage Sales	Leased	3,000	\$3,351/	mo	07/01/16	
800 s Meadows Pkwy #600	Reno	NV	Mortgage Sales	Leased	1,346	\$20,190/	yr	05/31/14	
26341 Curtiss Wright Pkwy Ste 101	Richmond Heights	OH	Mortgage Sales	Leased	3,600	\$2,025/	mo	month to month	
5000 Rockside Road #100	Independence	OH	Mortgage Sales	Leased	1,000	\$19,025/	yr	month to month	
2649 N. High Street, Suite A	Columbus	OH	Mortgage Sales	Subleased	1,500	\$500/	mo	month to month	
1205 West Abrams Street	Arlington	TX	Mortgage Sales	Leased	463	\$84,000/	yr	month to month	
2900 South Congress #101	Austin	TX	Mortgage Sales	Leased	916	\$2,005/	mo	month to month	
8700 Manchca Road #603	Austin	TX	Mortgage Sales	Leased	1,000	\$300/	mo	month to month	
9737 Great Hills Trail, Suite 150	Austin	TX	Mortgage Sales	Leased	3,667	\$54,088/	yr	02/28/17	
9737 Great Hills Trail, Suite 200	Austin	TX	Mortgage Sales	Leased	8,000	\$11,333/	mo	12/31/13	
1213 East Alton Gloor Blvd Suite H	Brownsville	TX	Mortgage Sales	Leased	1,000	\$13,200/	yr	month to month	
255 Elk Drive Suite D	Burleson	TX	Mortgage Sales	Leased	1,182	\$19,503/	yr	01/31/14	
12201 Merit Drive, Suite 400	Dallas	TX	Mortgage Sales	Leased	4,613	\$83,034/	yr	month to month	
4144 North Central Expressway Suite 600	Dallas	TX	Mortgage Sales	Leased	420	\$10,320/	yr	07/31/13	

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223 North Cedar Ridge	Duncanville	TX	Mortgage Sales	Leased	1,000	\$9,600/	yr	month to month
5211 South McColl Road Suite G	Edinburg	TX	Mortgage Sales	Leased	1,000	\$450/	mo	month to month
11601 Pellicano Suite A-14&15	El Paso	TX	Mortgage Sales	Leased	2,160	\$30,000/	yr	01/30/15
4936 Collinwood Suite 110	Fort Worth	TX	Mortgage Sales	Leased	750	\$13,500/	yr	08/31/14
17000 El Camino Real #103D	Houston	TX	Mortgage Sales	Leased	750	\$750/	mo	month to month

Item 2. Properties (Continued)

Street	City	State	Function	Owned Leased	Approximate Square Footage	Lease Amount	yr	Expiration
6420 Richmond #208	Houston	TX	Mortgage Sales	Leased	700	\$9,100/	yr	month to month
17347 Village Green Drive-102A	Houston	TX	Mortgage Sales	Leased	3,000	\$4,495/	mo	month to month
5353 W. Sam Houston Parkway N., Suite 170	Houston	TX	Mortgage Sales	Leased	5,442	\$69,756/	yr	04/30/13
7410 Westview	Houston	TX	Mortgage Sales	Leased	1,000	\$18,000/	yr	03/31/15
4600 Hwy 6 North, Ste 220	Houston	TX	Mortgage Sales	Leased	463	\$7,030/	yr	03/31/15
2825 Wilcrest Drive, Ste 220	Houston	TX	Mortgage Sales	Leased	120	\$400/	mo	month to month
545 E John Carpenter, Ste 300	Irving	TX	Mortgage Sales	Leased	1,081	\$3,629/	mo	month to month
201 Kingwood Medical Drive A400	Kingwood	TX	Mortgage Sales	Leased	1,850	\$4,420/	mo	month to month
1310 RR 620 S #C15	Lakeway	TX	Mortgage Sales	Leased	2,472	\$3,060/	mo	month to month
201 W Del Mar Blvd # 5B	Laredo	TX	Mortgage Sales	Leased	500	\$1,627/	mo	month to month
1901 East Palm Valley Blvd	Round Rock	TX	Mortgage Sales	Leased	1,100	\$13,200/	yr	07/31/13
1354 North Loop 1604 East	San Antonio	TX	Mortgage Sales	Leased	3,622	\$56,684/	yr	03/18/13
1110 South Alamo	San Antonio	TX	Mortgage Sales	Leased	1,016	\$1,300/	mo	12/31/15
1036 South Alamo	San Antonio	TX	Mortgage Sales	Leased	575	\$11,700/	yr	03/31/13
19901 Southwest Freeway #108	Sugarland	TX	Mortgage Sales	Leased	500	\$500/	mo	month to month
206 FM 1237	Troy	TX	Mortgage Sales	Leased	200	\$275/	mo	month to month
3334 WSW Loo 323 # 121	Tyler	TX	Mortgage Sales	Leased	180	\$235/	mo	09/30/13
602 S Main St #300	Weatherford	TX	Mortgage Sales	Leased	1,000	\$1,800/	mo	month to month
13961 Minuteman Drive Suite 125	Draper	UT	Mortgage Sales	Leased	2,807	\$4,795/	mo	09/30/17
13997 Minuteman Drive Suite 100	Draper	UT	Mortgage Sales	Leased	5,492	\$2,975/	mo	09/30/17
497 South Main	Ephraim	UT	Mortgage Sales	Leased	500	\$765/	mo	09/30/15
1558 N Woodland Park Drive #400	Layton	UT	Mortgage Sales	Leased	1,000	\$2,500/	mo	month to month
6965 South Union Park, Suites #300, #460, #470, & #480	Midvale	UT	Mortgage Sales	Leased	29,184	\$44,703/	mo	02/28/18
7651 South Main Street	Midvale	UT	Mortgage Sales	Leased	665	\$12,768/	mo	month to month
1245 Deer Valley Drive #3A	Park City	UT	Mortgage Sales	Leased	2,183	\$43,660/	yr	12/31/14
1864 West 12600 South	Riverton	UT	Mortgage Sales	Leased	277	\$6,911/	yr	month to month
		UT	Mortgage Sales	Leased	6,357	\$47,722/	yr	01/31/13

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970 East Murray-Holladay Rd., Suite 603	Salt Lake City								
307 West 200 South, Ste 2001	Salt Lake City	UT	Mortgage Sales	Leased	500	\$500/	mo	month to month	
9815 S. Monroe Street	Sandy	UT	Mortgage Sales	Leased	2,819	\$59,988/	yr	03/31/16	
1099 West South Jordan Parkway	South Jordan	UT	Mortgage Sales	Leased	3,329	\$60,311/	yr	10/31/14	
70 South Main Street	Tooele	UT	Mortgage Sales	Leased	1,230	\$25,200/	yr	04/19/14	
8831 South Redwood Rd	West Jordan	UT	Mortgage Sales	Leased	1,000	\$97,248/	yr	month to month	
1604 Hewitt Ave, Suite 703	Everett	WA	Mortgage Sales	Leased	2,038	\$4,650/	mo	month to month	
720 South 333rd St#102	Federal Way	WA	Mortgage Sales	Leased	2,000	\$6,253/	mo	month to month	
11335 NE 122nd Way, Suite #138 & #115	Kirkland	WA	Mortgage Sales	Leased	230	\$1,475/	mo	month to month	
5400 Carillon Point	Kirkland	WA	Mortgage Sales	Leased	500	\$5,089/	mo	month to month	
803 Vandercook Way #6E	Longview	WA	Mortgage Sales	Leased	500	\$995/	mo	month to month	
424 29th Ave NE, Suite A	Puyallup	WA	Mortgage Sales	Leased	2,782	\$4,869/	mo	05/31/15	
110 East Stewart Ave	Puyallup	WA	Mortgage Sales	Leased	3,400	\$4,000/	mo	month to month	
5909 6th Avenue A	Kenosha	WI	Mortgage Sales	Leased	1,000	\$950/	mo	month to month	

The Company believes the office facilities it occupies are in good operating condition and adequate for current operations. The company will enter into additional leases as expansion warrants. Those leases will be month to month where possible. As leases expire the Company will either renew or find comparable leases or acquire additional office space.

The following table summarizes the location and acreage of the six Company owned cemeteries, each of which includes one or more mausoleums:

Name of Cemetery	Location	Date Acquired	Developed Acreage (1)	Total Acreage (1)	Net Saleable Acreage	
					Acres Sold as Cemetery Spaces (2)	Total Available Acreage (1)
Memorial Estates, Inc.						
Lakeview Cemetery	1640 East Lakeview Drive Bountiful, Utah	1973	7	40	6	34
Mountain View Cemetery (5)	3115 East 7800 South Salt Lake City, Utah	1973	16	54	15	39
Redwood Cemetery (4) (5)	6500 South Redwood Road West Jordan, Utah	1973	34	78	29	49

Cottonwood Mortuary, Inc.						
Deseret Memorial Inc.	10055 South State					
Lake Hills Cemetery	Street					
(3)	Sandy, Utah	1991	9	41	4	37
4900 South Memory						
Holladay Memorial	Lane					
Park (3)(4)	Holladay, Utah	1991	5	14	4	10
California Memorial Estates						
Singing Hills Memorial	2800 Dehesa Road					
Park	El Cajon, California	1995	8	35	4	31

- (1) The acreage represents estimates of acres that are based upon survey reports, title reports, appraisal reports or the Company's inspection of the cemeteries.
- (2) Includes spaces sold for cash and installment contract sales.
- (3) As of December 31, 2012, there were mortgages of approximately \$749,000 collateralized by the property and facilities at Deseret Mortuary, Cottonwood Mortuary, Holladay Memorial Park, and Lake Hills Cemetery.
- (4) These cemeteries include two granite mausoleums.
- (5) The Company is planning to develop additional acreage at both Mountain View Cemetery and Redwood Cemetery in 2013.

Item 2. Properties (Continued)

The following table summarizes the location, square footage and the number of viewing rooms and chapels of the eleven Company owned mortuaries:

Name of Mortuary	Location	Date Acquired	Viewing Room(s)	Chapel(s)	Square Footage
Memorial Mortuary	5850 South 900 East Murray, Utah	1973	3	1	20,000
Memorial Estates, Inc.:					
Redwood Mortuary(2)	6500 South Redwood Rd. West Jordan, Utah	1973	2	1	10,000
Mountain View					
Mortuary(2)	3115 East 7800 South Salt Lake City, Utah	1973	2	1	16,000
Lakeview Mortuary(2)	1640 East Lakeview Dr. Bountiful, Utah	1973	0	1	5,500
Paradise Chapel Funeral Home					
	3934 East Indian School Road Phoenix, Arizona	1989	2	1	9,800
Deseret Memorial, Inc.:					
Deseret Mortuary(1)	36 East 700 South Salt Lake City, Utah	1991	2	2	36,300
Lakehills Mortuary(2)	10055 South State St. Sandy, Utah	1991	2	1	18,000
Cottonwood Mortuary(1)(2)	4670 South Highland Dr. Holladay, Utah	1991	2	1	14,500

(1) As of December 31, 2012, there were mortgages of approximately \$749,000 collateralized by the property and facilities at Deseret Mortuary, Cottonwood Mortuary, Holladay Memorial Park and Lake Hills Cemetery.

(2) These funeral homes also provide burial niches at their respective locations.

Item 3. Legal Proceedings

Lehman Brothers – Aurora Loan Services Litigation

On April 15, 2005, SecurityNational Mortgage entered into a loan purchase agreement with Lehman Brothers Bank, FSB (“Lehman Bank”). Under the terms of the loan purchase agreement, Lehman Bank agreed to purchase mortgage loans from time to time from SecurityNational Mortgage. During 2007, Lehman Bank and its wholly owned subsidiary, Aurora Loan Services LLC (“Aurora Loan Services”), purchased a total of 1,490 mortgage loans in the aggregate amount of \$352,774,000 from SecurityNational Mortgage. Lehman Bank asserted that certain mortgage

loans that it purchased from SecurityNational Mortgage during 2007 contained alleged misrepresentations and early payment defaults. As a result of these alleged breaches in the mortgage loans, Lehman Bank contended it had the right to require SecurityNational Mortgage to repurchase certain loans or be liable for losses related to such loans under the loan purchase agreement. SecurityNational Mortgage disagrees with these claims.

On December 17, 2007, SecurityNational Mortgage entered into an Indemnification Agreement with Lehman Bank and Aurora Loan Services. Under the terms of the Indemnification Agreement, SecurityNational Mortgage agreed to indemnify Lehman Bank and Aurora Loan Services for 75% of all losses that Lehman Bank and Aurora Loan Services may incur relative to breaches by mortgagors pertaining to 54 mortgage loans that were purchased from SecurityNational Mortgage. SecurityNational Mortgage was released from any obligation to pay the remaining 25% of such losses. The Indemnification Agreement also required SecurityNational Mortgage to indemnify Lehman Bank and Aurora Loan Services for 100% of any future losses incurred on mortgage loans with breaches that were not among the 54 mortgage loans.

Pursuant to the Indemnification Agreement, SecurityNational Mortgage paid \$395,000 to Aurora Loan Services as a deposit into a reserve account, to secure any obligations of SecurityNational Mortgage under the Indemnification Agreement. This deposit was in addition to a \$250,000 deposit that SecurityNational Mortgage previously made into the reserve account for a total of \$645,000. Losses from mortgage loans with alleged breaches were payable from the reserve account. However, Lehman Bank and Aurora Loan Services were not to apply any funds from the reserve account to a particular mortgage loan until an actual loss had occurred. Under the Indemnification Agreement SecurityNational Mortgage was to pay to Aurora Loan Services each calendar month the difference between the reserve account balance and \$645,000, but in no event would SecurityNational Mortgage be required to make payments into the reserve account in excess of \$125,000 for any calendar month.

Since the reserve account was established, funds had been paid from the account to indemnify \$4,281,000 in alleged losses from 31 mortgage loans that were among the 54 mortgage loans with alleged breaches that were covered by the Indemnification Agreement and ten other mortgage loans with alleged breaches. In the last monthly billing statement dated April 24, 2011 to SecurityNational Mortgage, Lehman Brothers Holdings Inc. (“Lehman Holdings”) claimed that SecurityNational Mortgage owed approximately \$3,745,000 for mortgage loan losses under the Indemnification Agreement.

During 2010 and 2011, the Company recognized alleged losses of \$1,289,000 and \$-0-, respectively. However, management cannot fully determine the total losses because there may be potential claims for losses that have not yet been determined. As of December 31, 2012, the Company had not accrued for any losses under the Indemnification Agreement. SecurityNational Mortgage was involved in discussions with Lehman Bank and Lehman Holdings concerning issues under the Indemnification Agreement. During the discussion period, monthly payments for December 2010 and January, February, March and April of 2011 totaling \$625,000 were abated or deferred.

On May 11, 2011, SecurityNational Mortgage filed a complaint against Aurora Bank FSB, formerly known as Lehman Bank, and Aurora Loan Services in the United States District Court for the District of Utah because it had been unable to resolve certain issues under the Indemnification Agreement. The complaint alleges, among other things, material breach of the Indemnification Agreement, including a claim that neither Lehman Bank nor Aurora Loan Services owned mortgage loans sold by SecurityNational to justify the amount of payments demanded from, and made by SecurityNational Mortgage. As a result, SecurityNational Mortgage claims it is entitled to judgment of approximately \$4,000,000 against Lehman Bank, as well as Aurora Loan Services to the extent of its involvement and complicity with Lehman Bank. The complaint also alleges a second claim for material breach of a section of the Indemnification Agreement that contains an alleged “sunset” provision and that the amount of the requested payments made was not justified under the “sunset” provision.

On June 8, 2011, Lehman Holdings, which had filed for bankruptcy in September 2008, filed a complaint against SecurityNational Mortgage in the United States District Court for the District of Utah. A Lehman Holdings’ subsidiary owns Lehman Bank. The complaint alleges that SecurityNational Mortgage sold loans to Lehman Bank, which were then sold to Lehman Holdings. The complaint additionally alleges that Lehman Bank and Aurora Loan Services assigned their rights and remedies under the loan purchase agreement, as well as the Indemnification Agreement to Lehman Holdings, which latter assignment purportedly took place on March 28, 2011. Lehman Holdings declared in a letter dated June 2, 2011 that the Indemnification Agreement was null and void, which is disputed by SecurityNational Mortgage.

Lehman Holdings’ alleged claims are for damages for breach of contract and breach of warranty pursuant to a loan purchase agreement and Seller’s Guide. Based on claiming that the Indemnification Agreement is null and void pursuant to its lawsuit, Lehman Holdings has initially claimed damages in excess of \$5,000,000. Prior to declaring the Indemnification Agreement null and void, Lehman Holdings claimed in a then recent billing statement under the terms of the Indemnification Agreement, that SecurityNational Mortgage owed approximately \$3,745,000 for mortgage loan

losses under the Indemnification Agreement. SecurityNational Mortgage strongly disagrees with the position of Lehman Holdings and, as set forth in its May 11, 2011 complaint, seeks affirmative relief of approximately \$4,000,000 from Lehman Bank and Aurora Loan Services, which are related to Lehman Holdings.

On September 4, 2012, SecurityNational Mortgage filed a motion for summary judgment in its action against Lehman Bank and Aurora Loan Services on certain material issues, as well as against Lehman Holdings regarding its claims against SecurityNational Mortgage. Lehman Bank and Aurora Loan Services filed a cross motion for summary judgment as to the issues in SecurityNational Mortgage's motion and, in the Lehman Holdings case, Lehman Holdings has requested that the Court allow a cross motion on the issues which are the subject of SecurityNational Mortgage's September 4, 2012 motion. The cases are before two different federal judges.

On February 27, 2013, SecurityNational Mortgage's motion for summary judgment against Lehman Bank and Aurora Loan Services and the related cross motion were heard by Judge David Nuffer of the United States District Court for the District of Utah. After an extensive hearing, Judge Nuffer requested that the parties prepare findings of fact in accordance with the Court's earlier promulgated findings as modified at the hearing, and that each party submit proposed conclusions of law related to the motions. Judge Nuffer also said that he may request a further hearing on the matter. SecurityNational Mortgage's motion in the Lehman Holdings case is presently set for hearing on May 30, 2013 before Judge Ted Stewart of the United States District Court for the District of Utah.

The Company is not a party to any other material legal proceedings outside the ordinary course of business or to any other legal proceedings, which if adversely determined, would have a material adverse effect on its financial condition or results of operation.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of the Company's shareholders during the quarter ended December 31, 2012.

PART II

Item 5. Market for the Registrant's Common Stock and Related Security Holder Matters

The Company's Class A Common Stock trades on the Nasdaq National Market under the symbol "SNFCA." Prior to August 13, 1987, there was no active public market for the Class A and Class C Common Stock. As of March 27, 2013, the closing sales price of the Class A Common Stock was \$6.77 per share. The following were the high and low market closing sales prices for the Class A Common Stock by quarter as reported by Nasdaq since January 1, 2011:

Period (Calendar Year)	Price Range (1)	
	High	Low
2011		
First Quarter	\$ 1.84	\$ 1.50
Second Quarter	\$ 1.63	\$ 1.23
Third Quarter	\$ 1.43	\$ 1.06
Fourth Quarter	\$ 1.48	\$ 1.00
2012		
First Quarter	\$ 1.62	\$ 1.19
Second Quarter	\$ 2.32	\$ 1.39
Third Quarter	\$ 4.43	\$ 2.19
Fourth Quarter	\$ 9.98	\$ 4.11
2013		
First Quarter (through March 27, 2013)	\$ 14.43	\$ 6.77

(1) Sales prices have been adjusted retroactively for the effect of annual stock dividends.

The Class C Common Stock is not traded. See Note 11 of the Notes to Consolidated Financial Statements.

The Company has never paid a cash dividend on its Class A or Class C Common Stock. The Company currently anticipates that all of its earnings will be retained for use in the operation and expansion of its business and does not intend to pay any cash dividends on its Class A or Class C Common Stock in the foreseeable future. Any future determination as to cash dividends will depend upon the earnings and financial position of the Company and such other factors as the Board of Directors may deem appropriate. A 5% stock dividend on Class A and Class C Common Stock has been paid each year from 1990 through 2012.

The graph below compares the cumulative total stockholder return of the Company's Class A common stock with the cumulative total return on the Standard & Poor's 500 Stock Index and the Standard & Poor's Insurance Index for the period from December 31, 2008 through December 31, 2012. The graph assumes that the value of the investment in the Company's Class A common stock and in each of the indexes was 100 at December 31, 2008 and that all dividends were reinvested.

The comparisons in the graph below are based on historical data and are not intended to forecast the possible future performance of the Company's Class A common stock.

	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12
SNFC	100	216	127	98	529
S & P 500	100	123	139	139	158
S & P Insurance	100	111	127	115	146

Item 6. Selected Financial Data - The Company and Subsidiaries (Consolidated)

The following selected financial data is for each of the five years ended December 31, 2012, and is derived from the audited consolidated financial statements. The data as of December 31, 2012 and 2011, and for the three years ended December 31, 2012, should be read in conjunction with the consolidated financial statements, related notes and other financial information.

Consolidated Statement of Earnings Data:

	Year Ended December 31				
	2012(3)	2011(2)	2010	2009	2008(1)
Revenue					
Premiums	\$ 48,216,000	\$ 48,457,000	\$ 38,509,000	\$ 38,394,000	\$ 35,963,000
Net investment income	23,250,000	20,011,000	18,616,000	19,915,000	28,201,000
Net mortuary and cemetery sales	10,865,000	10,761,000	11,520,000	11,974,000	12,726,000
Realized gains on investments	1,425,000	2,464,000	1,615,000	1,223,000	1,018,000
Other than temporary impairments	(1,208,000)	(841,000)	(674,000)	(326,000)	(2,752,000)
Mortgage fee income	150,553,000	77,605,000	97,343,000	144,275,000	143,259,000
Other	1,159,000	1,110,000	1,582,000	1,415,000	1,015,000
Total revenues	234,260,000	159,567,000	168,511,000	216,870,000	219,430,000
Expenses					
Policyholder benefits	45,681,000	46,204,000	37,947,000	37,369,000	34,325,000
Amortization of deferred policy acquisition costs	5,450,000	5,769,000	4,431,000	5,693,000	4,571,000
Selling, general and administrative expenses	156,310,000	102,513,000	122,217,000	161,785,000	169,917,000
Interest expense	3,744,000	1,961,000	2,779,000	3,326,000	7,449,000
Cost of goods and services of the mortuaries and cemeteries	1,724,000	1,883,000	2,226,000	2,349,000	2,437,000
Total benefits and expenses	212,909,000	158,330,000	169,600,000	210,522,000	218,699,000
Earnings (loss) before income taxes	21,351,000	1,237,000	(1,089,000)	6,348,000	731,000
Income tax benefit (expense)	(4,639,000)	62,000	658,000	(2,574,000)	(156,000)
Net earnings (loss)	\$ 16,712,000	\$ 1,299,000	\$ (431,000)	\$ 3,774,000	\$ 575,000
Net earnings (loss) per common share (4)	\$ 1.65	\$ 0.13	\$ (0.04)	\$ 0.39	\$ 0.06
Weighted average outstanding common shares (4)	10,135,000	9,894,000	9,688,000	9,668,000	10,074,000
	\$ 1.57	\$ 0.13	\$ (0.04)	\$ 0.39	\$ 0.06

Net earnings (loss) per common share-assuming dilution (4)					
Weighted average outstanding common shares-assuming dilution (4)	10,678,000	10,002,000	9,688,000	9,671,000	10,074,000

Balance Sheet Data:

	2012(3)	2011(2)	December 31 2010	2009	2008(1)
Assets					
Investments and restricted assets	\$ 351,034,000	\$ 336,124,000	\$ 278,949,000	\$ 302,915,000	\$ 309,142,000
Cash	38,906,000	17,084,000	39,557,000	39,464,000	19,914,000
Receivables	111,157,000	87,252,000	71,035,000	50,125,000	33,003,000
Other assets	96,120,000	82,591,000	77,471,000	79,523,000	81,167,000
Total assets	\$ 597,217,000	\$ 523,051,000	\$ 467,012,000	\$ 472,027,000	\$ 443,226,000
Liabilities					
Policyholder benefits	\$ 443,388,000	\$ 388,538,000	\$ 351,563,000	\$ 342,574,000	\$ 331,954,000
Bank & other loans payable	11,910,000	25,019,000	7,066,000	8,940,000	6,640,000
Cemetery & mortuary liabilities	13,412,000	13,140,000	13,192,000	13,382,000	13,467,000
Cemetery perpetual care obligation	3,153,000	2,983,000	2,854,000	2,756,000	2,648,000
Other liabilities	45,542,000	32,140,000	32,408,000	44,570,000	34,605,000
Total liabilities	517,405,000	461,820,000	407,083,000	412,222,000	389,314,000
Stockholders' equity	79,812,000	61,231,000	59,929,000	59,805,000	53,912,000
Total liabilities and stockholders' equity	\$ 597,217,000	\$ 523,051,000	\$ 467,012,000	\$ 472,027,000	\$ 443,226,000

(1) Includes the purchase of Southern Security Life Insurance Company on December 18, 2008.

(2) Includes the assumption reinsurance of North America Life Insurance Company on March 30, 2011.

(3) Includes the coinsurance with Mothe Life Insurance Company and DLE Life Insurance Company on November 1, 2012.

(4) Earnings per share amounts have been adjusted retroactively for the effect of annual stock dividends.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

The Company's operations over the last several years generally reflect three trends or events which the Company expects to continue: (i) increased attention to "niche" insurance products, such as the Company's funeral plan policies and traditional whole life products; (ii) emphasis on cemetery and mortuary business; and (iii) capitalizing on low interest rates by originating and refinancing mortgage loans.

Insurance Operations

The Company's insurance business includes funeral plans, and interest sensitive life insurance as well as other traditional life and accident and health insurance products. The Company places specific marketing emphasis on funeral plans through pre-need planning.

A funeral plan is a small face value life insurance policy that generally has face coverage of up to \$25,000. The Company believes that funeral plans represent a marketing niche that has lower competition because most insurance companies do not offer similar coverage. The purpose of the funeral plan policy is to pay the costs and expenses incurred at the time of the person's death. On a per thousand dollar cost of insurance basis these policies can be more expensive to the policy holder than many types of non-burial insurance due to their low face amount, requiring the fixed cost of the policy administration be distributed over a smaller policy size, and the simplified underwriting practices that result in higher mortality costs.

The following table shows the financial results for the Company's insurance operations for the years ended December 31, 2012, 2011 and 2010. See Note 14 of the Notes to Consolidated Financial Statements.

	Years ended December 31 (in thousands of dollars)				
	2012	2011	2012 vs 2011 % Increase (Decrease)	2010	2011 vs 2010 % Increase (Decrease)
Revenues from e x t e r n a l customers					
Insurance premiums	\$ 48,216	\$ 48,457	0 %	\$ 38,509	26 %
Net investment income	17,951	17,296	4 %	14,738	17 %
Other	690	1,468	(53 %)	2,008	(27 %)
Total	\$ 66,857	\$ 67,221	(1 %)	\$ 55,255	22 %
Intersegment revenue	\$ 7,571	\$ 5,833	30 %	\$ 6,817	(14 %)
Earnings before income taxes	\$ 4,591	\$ 2,698	70 %	\$ 1,860	45 %

Intersegment revenues for the Company's insurance operations are primarily interest income from the warehouse line provided to SecurityNational Mortgage Company. Profitability in 2012 has improved due to increases in net investment income, increases in intersegment revenues and decreases in expenses.

Life Insurance Acquisitions, Mergers and Reinsurance

Reinsurance with Mothe Life Insurance Company and DLE Life Insurance Company

On December 19, 2012, the Company, through its wholly owned subsidiary, Security National Life, entered into a Coinsurance Agreement with Mothe Life Insurance Company, a Louisiana domiciled insurance company, and a subsidiary, DLE Life Insurance Company, also a Louisiana domiciled life insurance company (collectively referred to as "Mothe Life"). The effective date of the Coinsurance Agreement was November 1, 2012. Under the terms of the Coinsurance Agreement, Security National Life agreed to reinsure certain insurance policies of Mothe Life in exchange for the settlement amount of \$34,485,000. In addition, the Coinsurance Agreement provided that effective November 1, 2012, Mothe Life ceded and transferred to Security National Life, and Security National Life accepted and coinsured all of Mothe Life's contractual liabilities under the coinsured policies by means of indemnity reinsurance. On December 18, 2012, the Louisiana Department of Insurance approved the Coinsurance Agreement.

The Coinsurance Agreement further provided that on and after the effective date of November 1, 2012, Security National Life was entitled to exercise all contractual rights of Mothe Life under the coinsured policies in accordance with the terms and provisions of such policies. Moreover, after the closing date of December 19, 2012, the Company agreed to be responsible for all the contractual liabilities under the coinsured policies, including the administration of the coinsured policies at its sole expense in accordance with the terms and conditions of a Service Agreement between Security National Life and Mothe Life. Pursuant to the terms of the Coinsurance Agreement, Security National Life paid a ceding commission to Mothe Life in the amount of \$4,684,000. As a result of the ceding commission, Mothe Life transferred \$34,485,000 in assets and \$39,169,000 in statutory reserves, or liabilities, to Security National Life.

Reinsurance with North America Life Insurance Company

On March 30, 2011, the Company, through its wholly owned subsidiary, Security National Life, completed a Coinsurance Agreement with North America Life Insurance Company (“North America Life”), a Texas domiciled insurance company. Under the terms of the Coinsurance Agreement, Security National Life agreed to reinsure certain insurance policies of North America Life in exchange for the settlement amount of \$15,703,000. Effective as of December 1, 2010, North America Life ceded or transferred to Security National Life, and Security National Life accepted and coinsured all of North America Life’s contractual liabilities under the coinsured policies by means of indemnity reinsurance. The Coinsurance Agreement was approved by the Texas Department of Insurance.

The Coinsurance Agreement also provides that on and after the effective date of December 1, 2010, Security National Life is entitled to exercise all contractual rights of North America Life under the coinsured policies in accordance with the terms and provisions of such policies. Moreover, after the closing date of March 30, 2011, the Company agreed to be responsible for all the contractual liabilities under the coinsured policies, including the administration of the coinsured policies at its sole expense in accordance with the terms and conditions of a services agreement.

Pursuant to the terms of the Coinsurance Agreement, Security National Life paid a ceding commission to North America Life in the amount of \$3,526,000. In addition, North America Life transferred \$15,703,000 in assets and \$19,230,000 in statutory reserves, or liabilities net of due and deferred premiums, to Security National Life. The \$15,703,000 in assets included \$12,990,000 in cash, \$9,000 in policy loans, and \$2,704,000 in promissory notes secured by real estate properties located in Bexar, Liberty, Travis and Wilson Counties in the State of Texas. The promissory notes are also guaranteed by business entities and an individual.

On September 1, 2011, Security National Life, with the approval of the Texas Department of Insurance, assumed all of the policies that were issued by North America Life and previously assumed and coinsured pursuant to the terms of the Coinsurance Agreement. Security National Life has assumed the same terms and conditions as set forth in each policy and certificates of assumptions were sent to all policyholders.

On August 31, 2011, the Company entered into a Stock Purchase Agreement with North America Life to purchase all of the outstanding shares of common stock of Trans-Western Life Insurance Company (“Trans-Western”), a Texas domiciled insurance company and a wholly-owned subsidiary of North America Life. The Company completed the Stock Purchase Agreement on May 2, 2012. The purchase consideration paid was \$494,000, which was equal to the capital and surplus of Trans-Western on May 2, 2012. On March 20, 2012, the Texas Insurance Department approved the Stock Purchase Agreement, and all of Trans-Western’s insurance business was ceded to North America Life, of which approximately 47% of the insurance in force was assumed by the Company under the Coinsurance Agreement as described in Note 9 of the Notes to Consolidated Statements. As part of the stock purchase transaction, the Company recaptured the 47% of insurance in force.

Cemetery and Mortuary Operations

The Company sells mortuary services and products through its seven mortuaries in Salt Lake City, Utah and one mortuary in Phoenix, Arizona. The Company also sells cemetery products and services through its five cemeteries in Salt Lake City, Utah and one cemetery in San Diego County, California. Cemetery land sales and at-need product sales and services are recognized as revenue at the time of sale or when the services are performed. Pre-need cemetery product sales are deferred until the merchandise is delivered and services performed.

On May 10, 2011, the Company and its subsidiary, Greer-Wilson Funeral Home, Inc., completed an asset sales transaction with SCI Arizona Funeral Services, Inc. (“SCI”), an Arizona corporation, to sell substantially all of the operating assets of Greer-Wilson Funeral Home and Crystal Rose Funeral Home to SCI. Under the terms of the asset purchase agreement among Greer-Wilson Funeral Home, Crystal Rose Funeral Home and SCI, SCI paid \$2,225,000 at closing to the Company and Greer-Wilson. The agreement also granted a three year right of first refusal to SCI to purchase Paradise Chapel Funeral Home. If the Company elects to sell Paradise Chapel Funeral Home within the three year period, the Company must provide a bona fide third party offer to SCI after which SCI has ten business days to exercise its right to purchase Paradise for the offer amount.

The following table shows the condensed financial results for the Company’s cemetery and mortuary operations for the years ended December 31, 2012, 2011 and 2010. See Note 14 of the Notes to Consolidated Financial Statements.

	Years ended December 31 (in thousands of dollars)				
	2012	2011	2012 vs 2011 % Increase (Decrease)	2010	2011 vs 2010 % Increase (Decrease)
Revenues from e x t e r n a l customers					
Mortuary revenues	\$ 4,567	\$ 4,864	(6 %)	\$ 6,211	(22 %)
Cemetery revenues	6,297	5,897	7 %	5,309	11 %
Realized gains (losses)	9	868	(99 %)	(27)	(3315 %)

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Other	470	308	53	%	321	(4	%)	
Total	\$ 11,343	\$ 11,937	(5	%)	\$ 11,814	1	%)	
E a r n i n g s								
(Losses) before								
income taxes	\$ 219	\$ 461	(52	%)	\$ (986)	(147	%)

The realized gain in the Company's cemetery and mortuary operations in 2011 was due to the sale of Greer-Wilson Funeral Home and Crystal Rose Funeral Home. Included in other revenue was rental income from residential and commercial properties purchased from Security National Life. Memorial Estates purchased these properties from financing provided by Security National Life. The rental income was offset by property insurance, taxes, maintenance expenses and interest payments made to Security National Life. Memorial Estates recorded depreciation on these properties of \$1,029,000 and \$1,025,000 for the twelve months ended December 31, 2012 and 2011, respectively.

Mortgage Operations

Approximately 67% of the Company's revenues and expenses for the fiscal year 2012 were through its wholly owned subsidiary, SecurityNational Mortgage Company ("SecurityNational Mortgage"). SecurityNational Mortgage is a mortgage lender incorporated under the laws of the State of Utah. SecurityNational Mortgage is approved and regulated by the Federal Housing Administration (FHA), a department of the U.S. Department of Housing and Urban Development (HUD), to originate mortgage loans that qualify for government insurance in the event of default by the borrower. SecurityNational Mortgage obtains loans primarily from its retail offices and independent brokers. SecurityNational Mortgage funds the loans from internal cash flows, including loan purchase agreements from Security National Life Insurance Company ("Security National Life"), and with unaffiliated financial institutions.

SecurityNational Mortgage receives fees from the borrowers and other secondary fees from third party investors that purchase its loans. SecurityNational Mortgage sells its loans to third party investors and retains servicing on some of these loans. SecurityNational Mortgage pays the brokers and retail loan officers a commission for loans that are brokered through SecurityNational Mortgage. For the twelve months ended December 31, 2012, 2011 and 2010, SecurityNational Mortgage originated and sold 13,392 loans (\$2,451,843,000 total volume), 8,100 loans (\$1,407,212,000 total volume), and 11,251 loans (\$2,094,738,000 total volume), respectively.

SecurityNational Mortgage originates mortgage loans funded by the warehouse banks and immediately sells them to third party investors. Generally, when mortgage loans are sold to the warehouse banks, SecurityNational Mortgage is no longer obligated to pay the amounts outstanding on the mortgage loans, but is required to pay a fee in the form of interest on a portion of the mortgage loans between the date the loans are sold to warehouse banks and the settlement date with the third party investors. The terms of the loan purchase agreements are typically for one year, with interest accruing on a portion of the mortgage loans at annual rates ranging from 2.5% to 2.75% over the 30-day LIBOR rate.

The mortgage loan volume in 2012 was higher than in 2011 primarily due to an increase in market share. The increase in market share was attributed to an expansion of the retail loan operations of SecurityNational Mortgage. SecurityNational Mortgage anticipates the loan volume for 2013 to be approximately \$125,000,000 to \$240,000,000 per month range which was comparable to the per month range in 2012.

SecurityNational Mortgage has entered into loan purchase agreements to originate and sell mortgage loans to two unaffiliated warehouse banks. On March 19, 2012, SecurityNational Mortgage and Wells Fargo Bank, N.A. ("Wells Fargo") entered into a loan purchase agreement in which Wells Fargo agreed to provide a warehouse line of up to \$55,000,000 to fund certain approved mortgage loans originated by SecurityNational Mortgage. On August 6, 2012, SecurityNational Mortgage and Wells Fargo agreed to an amendment to the March 19, 2012 loan purchase agreement to increase the amount of the warehouse line available to fund mortgage loans originated by SecurityNational Mortgage from \$55,000,000 to \$75,000,000.

On July 16, 2012, SecurityNational Mortgage and UBS Real Estate Securities Inc. ("UBS") entered into a loan purchase agreement in which UBS agreed to provide a warehouse line of up to \$30,000,000 to fund mortgage loans originated by SecurityNational Mortgage. On October 26, 2012, SecurityNational Mortgage and UBS agreed to an amendment to the July 16, 2012 loan purchase agreement to increase the amount of the warehouse line available to fund mortgage loans originated by SecurityNational Mortgage from \$30,000,000 to \$40,000,000.

The following table shows the condensed financial results for the Company's mortgage operations for the years 2012, 2011 and 2010. See Note 14 of the Notes to Consolidated Financial Statements.

Years ended December 31 (in thousands of dollars)		
2012	2011	2010

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			2012 vs 2011 % Increase (Decrease)		2011 vs 2010 % Increase (Decrease)
Revenues from external customers					
Revenues from loan originations	\$ 120,749	\$ 64,415	87 %	\$ 78,450	(18 %)
Secondary gains from investors	29,804	13,190	126 %	18,892	(30 %)
Total	\$ 150,553	\$ 77,605	94 %	\$ 97,342	(20 %)
Earnings (Losses) before income taxes	\$ 16,542	\$ (1,922)	961 %	\$ (1,964)	(2 %)

The increase in earnings for the Company's mortgage operations for the twelve months ended December 31, 2012 as compared to December 31, 2011 was due to higher loan volume and higher secondary gains from investors.

Mortgage Accounting Policy

Mortgage fee income consists of origination fees, processing fees and certain other income related to the origination and sale of mortgage loans. For mortgage loans sold to third party investors, mortgage fee income and related expenses are recognized pursuant to generally accepted accounting principles at the time the sales of the mortgage loans comply with the sales criteria for the transfer of financial assets. The sales criteria is as follows: (i) the transferred assets have been isolated from SecurityNational Mortgage and its creditors, (ii) the transferee has the right to pledge or exchange the mortgage, and (iii) SecurityNational Mortgage does not maintain effective control over the transferred mortgage.

SecurityNational Mortgage must determine that all three sales criteria are met at the time a mortgage loan is funded. All rights and title to the mortgage loans are assigned to unrelated financial institution investors, including investor commitments for the loans made prior to warehouse banks purchasing the loans under the purchase commitments. As of December 31, 2012, there was \$201,681,000 in mortgage loans in which settlements with third party investors were still pending.

SecurityNational Mortgage sells all mortgage loans to third party investors without recourse. However, it may be required to repurchase a loan or pay a fee instead of repurchase under certain events, which include the following:

- Failure to deliver original documents specified by the investor.
- The existence of misrepresentation or fraud in the origination of the loan.
- The loan becomes delinquent due to nonpayment during the first several months after it is sold.
- Early pay-off of a loan, as defined by the agreements.
- Excessive time to settle a loan.
- Investor declines purchase.
- Discontinued product and expired commitment.

Loan purchase commitments generally specify a date 30 to 45 days after delivery upon which the underlying loans should be settled. Depending on market conditions, these commitment settlement dates can be extended at a cost to SecurityNational Mortgage. Generally, a ten day extension will cost .125% (12.5 basis points) of the loan amount. SecurityNational Mortgage's historical data shows that 99% of all loans originated are generally settled by the investors as agreed within 20 days after delivery. There are situations, however, when SecurityNational Mortgage determines that it is unable to enforce the settlement of loans rejected by the third-party investors and that it is in its best interest to repurchase those loans from the warehouse banks.

It is SecurityNational Mortgage's policy to cure any documentation problems regarding such loans at a minimal cost for up to a six-month time period and to pursue efforts to enforce loan purchase commitments from third-party investors concerning the loans. SecurityNational Mortgage believes that six months allows adequate time to remedy any documentation issues, to enforce purchase commitments, and to exhaust other alternatives. Remedial methods include the following:

- Research reasons for rejection.
- Provide additional documents.
- Request investor exceptions.
- Appeal rejection decision to purchase committee.

· Commit to secondary investors.

Once purchase commitments have expired and other alternatives to remedy are exhausted, which could be earlier than the six month time period, the loans are repurchased and transferred to the long term investment portfolio at the lower of cost or market value and previously recorded sales revenue is reversed. Any loan that later becomes delinquent is evaluated by SecurityNational Mortgage at that time and any impairment is adjusted accordingly.

Determining lower of cost or market. Cost is equal to the amount paid to the warehouse bank and the amount originally funded by SecurityNational Mortgage. Market value, while often difficult to determine, is based on the following guidelines:

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- For loans that have an active market, SecurityNational Mortgage uses the market price on the repurchase date.
- For loans where there is no market but there is a similar product, SecurityNational Mortgage uses the market value for the similar product on the repurchase date.
- For loans where no active market exists on the repurchase date, SecurityNational Mortgage determines that the unpaid principal balance best approximates the market value on the repurchase date, after considering the fair value of the underlying real estate collateral and estimated future cash flows.

The appraised value of the real estate underlying the original mortgage loan adds significance to SecurityNational Mortgage's determination of fair value because, if the loan becomes delinquent, SecurityNational Mortgage has sufficient value to collect the unpaid principal balance or the carrying value of the loan. In determining the market value on the date of repurchase, SecurityNational Mortgage considers the total value of all of the loans because any sale of loans would be made as a pool.

For mortgages originated and held for investment, mortgage fee income and related expenses are recognized when the loan is originated.

As of December 31, 2012, the Company's long term mortgage loan portfolio consisted of \$11,679,000 in mortgage loans with delinquencies more than 90 days. Of this amount, \$6,039,000 of the loans were in foreclosure proceedings. The Company has not received or recognized any interest income on the \$11,679,000 in mortgage loans with delinquencies more than 90 days. During the twelve months ended December 31, 2012 and 2011, the Company increased its allowance for mortgage losses by \$434,000 and \$1,236,000, respectively, which was charged to loan loss expense and included in selling, general and administrative expenses for the period. The allowances for mortgage loan losses as of December 31, 2012 and 2011 were \$4,240,000 and \$4,881,000, respectively.

Also at December 31, 2012, the Company had foreclosed on a total of \$60,710,000 in long term mortgage loans, of which \$17,020,000 of the loans foreclosed were reclassified as other real estate held for investment or sale during 2012. The Company carries the foreclosed properties in Security National Life, Memorial Estates, and SecurityNational Mortgage, its respective life, cemeteries and mortuaries, and mortgage subsidiaries, and will rent the properties until it is deemed economically desirable to sell them.

Mortgage Loan Loss Settlements

The mortgage industry has seen potential loan losses increase. Future loan losses are extremely difficult to estimate, especially in the current market. However, management believes that the Company's reserve methodology and its current practice of property preservation allow it to estimate its losses on loans sold. The amounts accrued for loan losses in years ended December 31, 2012 and 2011 were \$4,053,000 and \$1,668,000, respectively. The estimated liability for indemnification losses is included in other liabilities and accrued expenses and, as of December 31, 2012 and 2011, the balances were \$6,035,000 and \$2,338,000, respectively.

Settlement with Wells Fargo

On April 7, 2011, SecurityNational Mortgage entered into a settlement agreement with Wells Fargo Funding, Inc. ("Wells Fargo"). The settlement agreement provides that it is intended to be a pragmatic commercial accommodation between SecurityNational Mortgage and Wells Fargo and is not to be construed as an admission of responsibility, liability or fault for either party's claims. Under the terms of the settlement agreement, SecurityNational Mortgage paid an initial settlement amount to Wells Fargo in the amount of \$4,300,000, of which \$1,000,000 had already been paid to Wells Fargo in January 2011, leaving a balance of \$3,300,000. The \$3,300,000 balance was paid shortly after the parties executed the settlement agreement.

In addition, under the terms of the settlement agreement, Wells Fargo has the right to deduct 10 basis points (.0010) from the purchase proceeds of each loan that SecurityNational Mortgage sells to Wells Fargo during the period from April 8, 2011 to March 31, 2017. The amounts deducted by Wells Fargo for years ended December 31, 2012 and 2011 were \$2,674,269 and \$928,075, respectively, representing 10 basis points from the purchase proceeds of the loans that SecurityNational Mortgage sold to Wells Fargo during that period.

SecurityNational Mortgage is also required under the settlement agreement to set aside 10 basis points (.0010) during the period from April 8, 2011 to March 31, 2017 from the purchase proceeds of any loans that it sells to any mortgage loan purchaser other than Wells Fargo and pay such amounts to Wells Fargo. The amounts deducted by Wells Fargo for the years ended December 31, 2012 and 2011 were \$617,740 and \$80,554, respectively, representing 10 basis points from the purchase proceeds of the loans it sold to mortgage loan purchasers other than Wells Fargo during that period.

Finally, SecurityNational Mortgage is required under the settlement agreement to set aside 50% from the net proceeds that it receives from any sale, liquidation or other transfer of certain real estate properties that it owns, after subtracting taxes, commissions, recording fees and other transaction costs. These real estate properties consist of 27 real estate properties with a total book value of \$5,404,900 as of December 31, 2012. Thus far, none of these real estate properties have been sold, liquidated or transferred.

In consideration for SecurityNational Mortgage making the initial settlement payment to Wells Fargo, Wells Fargo and related parties, including Wells Fargo Bank, released SecurityNational Mortgage and related parties, including the Company and Security National Life, from any claims, demands, damages, obligations, liabilities, or causes of action relating to residential mortgage loans that Wells Fargo purchased from SecurityNational Mortgage prior to December 31, 2009. Similarly, SecurityNational Mortgage released Wells Fargo and its related parties from any claims, demands, damages, obligations, liabilities, or causes of actions relating to residential mortgage loans that Wells Fargo purchased from SecurityNational Mortgage prior to December 31, 2009.

Mortgage Loan Loss Demands

Third Party Investors

There have been assertions in third party investor correspondence that SecurityNational Mortgage sold mortgage loans that allegedly contained misrepresentations or experienced early payment defaults, or that were otherwise allegedly defective or not in compliance with agreements between SecurityNational Mortgage and the third party investors consisting principally of financial institutions. As a result of these claims, third party investors have made demands that SecurityNational Mortgage repurchase certain alleged defective mortgage loans that were sold to such investors or indemnify them against any losses related to such loans.

As of December 31, 2012, third party investors had asserted total potential claims and notices of potential claims relating to mortgage loan repurchases, indemnifications and other issues that are substantially greater than \$25,000,000. Additional potential claims and notices of potential claims from third party investors have been made since December 31, 2012. The Company has reserved and accrued \$6,035,000 as of December 31, 2012 to settle all such investor related claims.

The total amount of potential claims and notices of potential claims are greater than the net asset value of SecurityNational Mortgage, which was \$26,835,000 on December 31, 2012, and its reserve for mortgage loan loss, which was \$6,035,000 on December 31, 2012. SecurityNational Mortgage disagrees with the claims and notices of potential claims asserted by third party investors against it and believes it has significant defenses to these claims. Any additional losses in excess of the current loan loss reserve cannot be estimated as SecurityNational Mortgage is currently in the process of reviewing repurchase demands and notices of potential claims from third party investors.

If SecurityNational Mortgage is unable to resolve demands by the third party investors on acceptable terms, legal action may ensue in an effort to obtain amounts that the third party investors claim are allegedly due. In the event of legal action, if SecurityNational Mortgage is not successful in its defenses against claims asserted by these third party investors to the extent that a substantial judgment is entered against SecurityNational Mortgage which is beyond its capacity to pay, SecurityNational Mortgage may be required to curtail or cease operations.

JP Morgan Chase Indemnification Demand

The Company and its wholly-owned subsidiary, SecurityNational Mortgage, received a notice of claim for indemnification dated December 21, 2011, relating to mortgage loans that EMC Mortgage, LLC (“EMC Mortgage”) allegedly purchased as a third party investor from SecurityNational Mortgage. The notice was from JP Morgan Chase

& Co. (“JP Morgan Chase”) on behalf of EMC Mortgage. According to the notice, the alleged indemnification claim relates to mortgage loans that SecurityNational Mortgage sold to EMC Mortgage under a Mortgage Loan Purchase Agreement, dated December 5, 2005, between SecurityNational Mortgage and EMC. The notice also referenced an Agreement of Guaranty, dated February 23, 2006, by the Company relative to EMC Mortgage. The notice states that EMC Mortgage allegedly purchased mortgage loans from SecurityNational Mortgage, which were later securitized by means of mortgage pass-through certificates.

The notice of indemnification claim from JP Morgan Chase also states that EMC Mortgage has been named in a lawsuit by the Bear Stearns Mortgage Funding Trust 2007-AR2 (the “Trust”), which was filed on September 13, 2011 in the Delaware Court of Chancery. A copy of the complaint and the amended complaint was provided to the Company by JP Morgan Chase. The amended complaint contends that more than 800 residential mortgage loans that EMC Mortgage sold to the Trust contained breaches of representations and warranties concerning the mortgage loans. The amended complaint also contends that despite EMC Mortgage’s assurance to the Trust that the mortgage loans met certain minimum quality standards, there have been defaults and foreclosures in many of such loans. As a result of the alleged defaults and foreclosures, the amended complaint asserts that EMC Mortgage is required to repurchase from the Trust any loans in which it breached its representations and warranties, in the amount of the mortgage loans’ outstanding principal balance and all accrued but unpaid interest.

The notice from JP Morgan Chase further states that the Company and SecurityNational Mortgage are required to indemnify EMC Mortgage for any losses arising from the lawsuit against EMC based upon alleged untrue statements of material fact related to information that was provided by SecurityNational Mortgage. The amended complaint includes the loan numbers of the alleged non-complying mortgage loans that EMC Mortgage sold to the Trust. In a letter dated February 7, 2012, from JP Morgan Chase that accompanied a copy of the amended complaint, JP Morgan Chase asserted that 21 mortgage loans originated by SecurityNational Mortgage were included in the lawsuit as part of the alleged non-complying mortgage loans that EMC allegedly sold to the Trust. Thus, it appears that only a very small percentage of the alleged non-complying mortgage loans that EMC Mortgage sold to the Trust were mortgage loans that SecurityNational Mortgage had sold to EMC.

Moreover, to the extent the claims by the Trust against EMC Mortgage relate to mortgage loans that SecurityNational Mortgage sold to EMC, the Company believes it has defenses to such claims with respect to EMC. For example, neither the Company nor SecurityNational Mortgage is a party to any agreement involving the Trust, nor are they privy to any agreements between EMC Mortgage and the Trust. The Company intends to vigorously defend itself and SecurityNational Mortgage in the event that JP Morgan Chase were to bring any legal action to require the Company or SecurityNational Mortgage to indemnify it for any loss, liability or expense in connection with the lawsuit that the Trust has brought against EMC Mortgage.

Mortgage Loan Loss Litigation

Lehman Brothers - Aurora Loan Services Litigation

On April 15, 2005, SecurityNational Mortgage entered into a loan purchase agreement with Lehman Brothers Bank, FSB ("Lehman Bank"). Under the terms of the loan purchase agreement, Lehman Bank agreed to purchase mortgage loans from time to time from SecurityNational Mortgage. During 2007, Lehman Bank and its wholly owned subsidiary, Aurora Loan Services LLC ("Aurora Loan Services"), purchased a total of 1,490 mortgage loans in the aggregate amount of \$352,774,000 from SecurityNational Mortgage. Lehman Bank asserted that certain of the mortgage loans that it purchased from SecurityNational Mortgage during 2007 contained alleged misrepresentations and early payment defaults. As a result of these alleged breaches in the mortgage loans, Lehman Bank contended it had the right to require SecurityNational Mortgage to repurchase certain loans or be liable for losses related to such loans under the loan purchase agreement. SecurityNational Mortgage disagrees with these claims.

On December 17, 2007, SecurityNational Mortgage entered into an Indemnification Agreement with Lehman Bank and Aurora Loan Services. Under the terms of the Indemnification Agreement, SecurityNational Mortgage agreed to indemnify Lehman Bank and Aurora Loan Services for 75% of all losses that Lehman Bank and Aurora Loan Services may incur relative to breaches by mortgagors pertaining to 54 mortgage loans that were purchased from SecurityNational Mortgage. SecurityNational Mortgage was released from any obligation to pay the remaining 25% of such losses. The Indemnification Agreement also required SecurityNational Mortgage to indemnify Lehman Bank and Aurora Loan Services for 100% of any future losses incurred on mortgage loans with breaches that were not among the 54 mortgage loans.

Pursuant to the Indemnification Agreement, SecurityNational Mortgage paid \$395,000 to Aurora Loan Services as a deposit into a reserve account, to secure any obligations of SecurityNational Mortgage under the Indemnification Agreement. This deposit was in addition to a \$250,000 deposit that SecurityNational Mortgage previously made into the reserve account for a total of \$645,000. Losses from mortgage loans with alleged breaches were payable from the reserve account. However, Lehman Bank and Aurora Loan Services were not to apply any funds from the reserve account to a particular mortgage loan until an actual loss had occurred. Under the Indemnification Agreement SecurityNational Mortgage was to pay to Aurora Loan Services each calendar month the difference between the reserve account balance and \$645,000, but in no event would SecurityNational Mortgage be required to make

payments into the reserve account in excess of \$125,000 for any calendar month.

Since the reserve account was established, funds had been paid from the account to indemnify \$4,281,000 in alleged losses from 31 mortgage loans that were among 54 mortgage loans with alleged breaches that were covered by the Indemnification Agreement and ten other mortgage loans with alleged breaches. In the last monthly billing statement dated April 24, 2011 to SecurityNational Mortgage, Lehman Brothers Holdings Inc. (“Lehman Holdings”) claimed that SecurityNational Mortgage owed approximately \$3,745,000 for mortgage loan losses under the Indemnification Agreement.

During 2010 and 2011, the Company recognized alleged losses of \$1,289,000 and \$-0-, respectively. However, management cannot fully determine the total losses because there may be potential claims for losses that have not yet been determined. As of December 31, 2012, the Company had not accrued for any losses under the Indemnification Agreement. SecurityNational Mortgage was involved in discussions with Lehman Bank and Lehman Holdings concerning issues under the Indemnification Agreement. During the discussion period, monthly payments for December 2010 and January, February, March and April of 2011 totaling \$625,000 were abated or deferred.

On May 11, 2011, SecurityNational Mortgage filed a complaint against Aurora Bank FSB, formerly known as Lehman Bank, and Aurora Loan Services in the United States District Court for the District of Utah because it had been unable to resolve certain issues under the Indemnification Agreement. The complaint alleges, among other things, material breach of the Indemnification Agreement, including a claim that neither Lehman Bank nor Aurora Loan Services owned mortgage loans sold by SecurityNational to justify the amount of payments demanded from, and made by SecurityNational Mortgage. As a result, SecurityNational Mortgage claims it is entitled to judgment of approximately \$4,000,000 against Lehman Bank, as well as Aurora Loan Services to the extent of its involvement and complicity with Lehman Bank. The complaint also alleges a second claim for material breach of a section of the Indemnification Agreement that contains an alleged “sunset” provision and that the amount of the requested payments made was not justified under the “sunset” provision.

On June 8, 2011, Lehman Holdings, which had filed for bankruptcy in September 2008, filed a complaint against SecurityNational Mortgage in the United States District Court for the District of Utah. A Lehman Holdings’ subsidiary owns Lehman Bank. The complaint alleges that SecurityNational Mortgage sold loans to Lehman Bank, which were then sold to Lehman Holdings. The complaint additionally alleges that Lehman Bank and Aurora Loan Services assigned their rights and remedies under the loan purchase agreement, as well as the Indemnification Agreement to Lehman Holdings, which latter assignment purportedly took place on March 28, 2011. Lehman Holdings declared in a letter dated June 2, 2011 that the Indemnification Agreement was null and void, which is disputed by SecurityNational Mortgage.

Lehman Holdings’ alleged claims are for damages for breach of contract and breach of warranty pursuant to a loan purchase agreement and Seller’s Guide. Based on claiming that the Indemnification Agreement is null and void pursuant to its lawsuit, Lehman Holdings has initially claimed damages in excess of \$5,000,000. Prior to declaring the Indemnification Agreement null and void, Lehman Holdings claimed in a then recent billing statement under the terms of the Indemnification Agreement, that SecurityNational Mortgage owed approximately \$3,745,000 for mortgage loan losses under the Indemnification Agreement. SecurityNational Mortgage strongly disagrees with the position of Lehman Holdings and, as set forth in its May 11, 2011 complaint, seeks affirmative relief of approximately \$4,000,000 from Lehman Bank and Aurora Loan Services, which are related to Lehman Holdings.

On September 4, 2012, SecurityNational Mortgage filed a motion for summary judgment in its action against Lehman Bank and Aurora Loan Services on certain material issues, as well as against Lehman Holdings regarding its claims against SecurityNational Mortgage. Lehman Bank and Aurora Loan Services filed a cross motion for summary judgment as to the issues in SecurityNational Mortgage’s motion and, in the Lehman Holdings case, Lehman Holdings has requested that the Court allow a cross motion on the issues which are the subject of SecurityNational Mortgage’s September 4, 2012 motion. The cases are before two different federal judges.

On February 27, 2013, SecurityNational Mortgage's motion for summary judgment against Lehman Bank and Aurora Loan Services and the related cross motion were heard by Judge David Nuffer of the United States District Court for the District of Utah. After an extensive hearing, Judge Nuffer requested that the parties prepare findings of fact in accordance with the Court's earlier promulgated findings as modified at the hearing, and that each party submit proposed conclusions of law related to the motions. Judge Nuffer also said that he may request a further hearing on the matter. SecurityNational Mortgage's motion in the Lehman Holdings case is presently set for hearing on May 30, 2013 before Judge Ted Stewart of the United States District Court for the District of Utah.

Prearranged funeral and pre-need cemetery customer obtaining costs - costs incurred related to obtaining new pre-need cemetery and prearranged funeral business are accounted for under the guidance of the provisions of GAAP related to Financial Services - Insurance. Obtaining costs, which include only costs that vary with and are primarily related to the acquisition of new pre-need cemetery and prearranged funeral business, are deferred until the merchandise is delivered or services are performed.

Revenues and costs for at-need sales are recorded when a valid contract exists, the services are performed, collection is reasonably assured and there are no significant obligations remaining.

Mortgage Operations

Mortgage fee income is generated through the origination and refinancing of mortgage loans and is realized in accordance with GAAP related to sales of financial assets.

The majority of loans originated are sold to third party investors. The amounts sold to investors are shown on the balance sheet as mortgage loans sold to investors, and include the fees due from the investors.

Use of Significant Accounting Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts and disclosures. It is reasonably possible that actual experience could differ from the estimates and assumptions utilized which could have a material impact on the financial statements. The following is a summary of our significant accounting estimates, and critical issues that impact them:

Fixed Maturities and Equity Securities Available for Sale

Securities available for sale are carried at estimated fair value, with unrealized holding gains and losses reported in accumulated other comprehensive income, which is included in stockholders' equity after adjustment for deferred income taxes and deferred acquisition costs related to universal life products.

When the value of a security declines and the decline is determined to be other than temporary, the carrying value of the investment is reduced to its fair value and a realized loss is recorded to the extent of the decline.

Deferred Acquisition Costs

Amortization of deferred policy acquisition costs for interest sensitive products is dependent upon estimates of current and future gross profits or margins on this business. Key assumptions used include the following: yield on investments supporting the liabilities, amount of interest or dividends credited to the policies, amount of policy fees and charges, amount of expenses necessary to maintain the policies, amount of death and surrender benefits, and the length of time the policies will stay in force.

For nonparticipating traditional life products, these costs are amortized over the premium paying period of the related policies in proportion to the ratio of annual premium revenues to total anticipated premium revenues. Such anticipated premium revenues are estimated using the same assumption used for computing liabilities for future policy benefits and are generally "locked in" at the date the policies are issued.

Value of Business Acquired

Value of business acquired is the present value of estimated future profits of the acquired business and is amortized similar to deferred acquisition costs. The critical issues explained for deferred acquisition costs would also apply for value of business acquired.

Allowance for Doubtful Accounts

The Company accrues an estimate of potential losses for the collection of receivables. The significant receivables are the result of receivables due on mortgage loans sold to investors, cemetery and mortuary operations, mortgage loan operations and other receivables. The allowance is based upon the Company's experience. The critical issue that would impact recovery of the cemetery and mortuary receivables is the overall economy. The critical issues that would impact recovery of mortgage loan operations would be interest rate risk and loan underwriting.

Future Policy Benefits

Reserves for future policy benefits for traditional life insurance products requires the use of many assumptions, including the duration of the policies, mortality experience, expenses, investment yield, lapse rates, surrender rates, and dividend crediting rates.

Significant Accounting Policies

The following is a brief summary of our significant accounting policies and a review of our most critical accounting estimates. See Note 1 of the Notes to Consolidated Financial Statements.

Insurance Operations

In accordance with accounting principles generally accepted in the United States of America (GAAP), premiums and considerations received for interest sensitive products such as universal life insurance and ordinary annuities are reflected as increases in liabilities for policyholder account balances and not as revenues. Revenues reported for these products consist of policy charges for the cost of insurance, administration charges, amortization of policy initiation fees and surrender charges assessed against policyholder account balances. Surrender benefits paid relating to these products are reflected as decreases in liabilities for policyholder account balances and not as expenses.

The Company receives investment income earned from the funds deposited into account balances, a portion of which is passed through to the policyholders in the form of interest credited. Interest credited to policyholder account balances and benefit claims in excess of policyholder account balances are reported as expenses in the consolidated financial statements.

Premium revenues reported for traditional life insurance products are recognized as revenues when due. Future policy benefits are recognized as expenses over the life of the policy by means of the provision for future policy benefits.

The costs related to acquiring new business, including certain costs of issuing policies and other variable selling expenses (principally commissions), defined as deferred policy acquisition costs, are capitalized and amortized into expense. For nonparticipating traditional life products, these costs are amortized over the premium paying period of the related policies, in proportion to the ratio of annual premium revenues to total anticipated premium revenues. Such anticipated premium revenues are estimated using the same assumption used for computing liabilities for future policy benefits and are generally “locked in” at the date the policies are issued. For interest sensitive products, these costs are amortized generally in proportion to expected gross profits from surrender charges and investment, mortality and expense margins. This amortization is adjusted when the Company revises the estimate of current or future gross profits or margins. For example, deferred policy acquisition costs are amortized earlier than originally estimated when policy terminations are higher than originally estimated or when investments backing the related policyholder liabilities are sold at a gain prior to their anticipated maturity.

Death and other policyholder benefits reflect exposure to mortality risk and fluctuate from year to year on the level of claims incurred under insurance retention limits. The profitability of the Company is primarily affected by fluctuations in mortality, other policyholder benefits, expense levels, interest spreads (i.e., the difference between interest earned on investments and interest credited to policyholders) and persistency. The Company has the ability to mitigate adverse experience through sound underwriting, asset/liability duration matching, sound actuarial practices, adjustments to credited interest rates, policyholder dividends and cost of insurance charges.

Cemetery and Mortuary Operations

Pre-need sales of funeral services and caskets, including revenue and costs associated with the sales of pre-need funeral services and caskets, are deferred until the services are performed or the caskets are delivered.

Pre-need sales of cemetery interment rights (cemetery burial property) - revenue and costs associated with the sales of pre-need cemetery interment rights are recognized in accordance with the retail land sales provisions of accounting principles generally accepted in the United States (GAAP). Under GAAP, recognition of revenue and associated costs

from constructed cemetery property must be deferred until a minimum percentage of the sales price has been collected. Revenues related to the pre-need sale of unconstructed cemetery property will be deferred until such property is constructed and meets the criteria of FASB Codification Topic 360-20, described above.

Pre-need sales of cemetery merchandise (primarily markers and vaults) - revenue and costs associated with the sales of pre-need cemetery merchandise are deferred until the merchandise is delivered.

Pre-need sales of cemetery services (primarily merchandise delivery and installation fees and burial opening and closing fees) - revenue and costs associated with the sales of pre-need cemetery services are deferred until the services are performed.

These assumptions are made based upon historical experience, industry standards and a best estimate of future results and, for traditional life products, include a provision for adverse deviation. For traditional life insurance, once established for a particular series of products, these assumptions are generally held constant.

Unearned Revenue

The universal life products the Company sells have significant policy initiation fees (front-end load) that are deferred and amortized into revenues over the estimated expected gross profits from surrender charges and investment, mortality and expense margins. The same issues that impact deferred acquisition costs would apply to unearned revenue.

Deferred Pre-need Cemetery and Funeral Contracts Revenues and Estimated Future Cost of Pre-need Sales

The revenue and cost associated with the sales of pre-need cemetery merchandise and funeral services are deferred until the merchandise is delivered or the service is performed.

The Company, through its cemetery and mortuary operations, provides a guaranteed funeral arrangement wherein a prospective customer can receive future goods and services at guaranteed prices. To accomplish this, the Company, through its life insurance operations, sells to the customer an increasing benefit life insurance policy that is assigned to the mortuaries. If, at the time of need, the policyholder/potential mortuary customer utilizes one of the Company's facilities, the guaranteed funeral arrangement contract that has been assigned will provide the funeral goods and services at the contracted price. The increasing life insurance policy will cover the difference between the original contract prices and current prices. Risks may arise if the difference cannot be fully met by the life insurance policy.

Mortgage Servicing Rights

Mortgage Service Rights (MSR) arise from contractual agreements between the Company and third-party investors (or their agents) when mortgage loans are sold. Under these contracts, the Company is obligated to retain and provide loan servicing functions on the loans sold, in exchange for fees and other remuneration. The servicing functions typically performed include, among other responsibilities, collecting and remitting loan payments; responding to borrower inquiries; accounting for principal and interest, holding custodial (impound) funds for payment of property taxes and insurance premiums; counseling delinquent mortgagors; and supervising the acquisition of REO and property dispositions. The Company initially accounts for MSRs at fair value and subsequently accounts for them using the amortization method. MSR amortization is determined by amortizing the balance straight-line over an estimated nine year life. The Company periodically assesses MSRs accounted for using the amortization method for impairment.

Mortgage Allowance for Loan Loss and Loan Loss Reserve

The Company provides allowances for losses on its mortgage loans through an allowance for loan losses (a contra-asset account) and through the mortgage loan loss reserve (a liability account). The allowance for loan losses is an allowance for losses on the Company's mortgage loans held for investment. The allowance is comprised of two components. The first component is an allowance for collectively evaluated impairment that is based upon the Company's historical experience in collecting similar receivables. The second component is based upon individual evaluation of loans that are determined to be impaired. Upon determining impairment the Company establishes an individual impairment allowance based upon an assessment of the fair value of the underlying collateral.

When a mortgage loan is past due more than 90 days, the Company, where appropriate, sets up an allowance to approximate the excess of the carrying value of the mortgage loan over the estimated fair value of the underlying real

estate collateral. Once a loan is past due more than 90 days the Company does not accrue any interest income and proceeds to foreclose on the real estate. All expenses for foreclosure are expensed as incurred. Once foreclosed the carrying value will approximate its fair value and the amount will be classified as real estate owned. The Company carries the foreclosed property in Security National Life, Memorial Estates and SecurityNational Mortgage, its life, cemeteries and mortuaries and mortgage subsidiaries, and will rent the properties until it is deemed desirable to sell them. The Company is currently able to rent properties at a 2% to 6% gross return.

The mortgage loan loss reserve is an estimate of probable losses at the balance sheet date that the Company will realize in the future on mortgage loans sold to third party investors. The Company may be required to reimburse third party investors for costs associated with early payoff of loans within the first six months of such loans and to repurchase loans where there is a default in any of the first four monthly payments to the investors or, in lieu of repurchase, to pay a negotiated fee to the investors. The Company's estimates are based upon historical loss experience and the best estimate of the probable loan loss liabilities.

Upon completion of a transfer that satisfies the conditions to be accounted for as a sale, the Company initially measures at fair value liabilities incurred in a sale relating to any guarantee or recourse provisions. The Company accrues a monthly allowance for indemnification losses to investors based on total production. This estimate is based on the Company's historical experience. The amount accrued for and the charge to expense is included in selling, general and administrative expenses. The estimated liability for indemnification losses is included in other liabilities and accrued expenses. The Company believes the allowance for loan losses and the loan loss reserve represent probable loan losses incurred as of the balance sheet date.

Deferred Compensation

The Company has deferred compensation agreements with several of its current and past executive officers. The deferred compensation is payable upon retirement or death of these individuals either in annual installments (ten years) or lump sum settlement, if approved by the Board of Directors. The Company has accrued the present value of these benefits based upon their future retirement dates and other factors, on its consolidated financial statements.

Depreciation

Depreciation is calculated principally on the straight-line-method over the estimated useful lives of the assets, which range from 3 to 40 years. Leasehold improvements are amortized over the lesser of the useful life or remaining lease terms.

Self-Insurance

The Company is self-insured for certain casualty insurance, workers compensation and liability programs. Self-Insurance reserves are maintained relative to these programs. The level of exposure from catastrophic events is limited by the purchase of stop-loss and aggregate liability reinsurance coverage. When estimating the self-insurance liabilities and related reserves, management considers a number of factors, which include historical claims experience, demographic factors, severity factors and valuations provided independent third-party actuaries. Management reviews its assumptions with its independent third-party administrators and actuaries to evaluate whether the self-insurance reserves are adequate. If actual claims or adverse development of loss reserves occurs and exceed these estimates, additional reserves may be required. The estimation process contains uncertainty since management must use judgment to estimate the ultimate cost that will be incurred to settle reported claims and unreported claims for incidents incurred but not reported as of the balance sheet date.

Results of Consolidated Operations

2012 Compared to 2011

Total revenues increased by \$74,693,000, or 46.8%, to \$234,260,000 for fiscal year 2012 from \$159,567,000 for the fiscal year 2011. Contributing to this increase in total revenues was a \$72,948,000 increase in mortgage fee income, a \$3,239,000 increase in net investment income, a \$103,000 increase in net cemetery and mortuary sales, and a \$50,000 increase in other revenue. This increase in total revenues was partially offset by a \$1,039,000 decrease in realized gains on investments and other assets, a \$367,000 increase in other than temporary impairments, and a \$241,000 decrease in insurance premiums and other considerations.

Insurance premiums and other consideration decreased by \$241,000, or 0.5%, to \$48,216,000 for 2012, from \$48,457,000 for the comparable period in 2011. This decrease was primarily due to a decrease in renewal premiums due to the decline of older blocks of business, which was offset by an increase in first year premiums due to increased insurance sales.

Net investment income increased by \$3,239,000, or 16.2%, to \$23,250,000 for 2012, from \$20,011,000 for the comparable period in 2011. This increase was primarily attributable to a \$2,461,000 increase in income from short-term investments, a \$1,186,000 increase in income from real estate, a \$378,000 decrease in investment expenses, and a \$15,000 increase in interest on mortgage loans on real estate. This increase was partially offset by a \$32,000 decrease in fixed maturity securities income, an \$8,000 decrease in equity securities income, and a \$5,000 decrease in policy loans income.

Net cemetery and mortuary sales increased by \$103,000, or 1.0%, to \$10,864,000 for 2012, from \$10,761,000 for the comparable period in 2011. This increase was primarily due to a \$400,000 increase in cemetery pre-need and at-need sales, which was offset by a \$297,000 decrease in mortuary at-need sales.

Realized gains on investments and other assets decreased by \$1,039,000, or 42.2%, to \$1,425,000 in realized gains for 2012, from \$2,464,000 in realized gains for the comparable period in 2011. This decrease in realized gains and losses on investments and other assets is primarily due to the one-time gain of \$887,000 on the sale of Greer-Wilson Funeral Home and Crystal Rose Funeral Home that occurred in 2011, a \$310,000 decrease in gains and losses on fixed maturity securities held to maturity, and an \$85,000 decrease in gains and losses on securities available for sale.

Other than temporary impairments on investments increased by \$367,000, or 43.6%, to \$1,208,000 for 2012 from \$841,000 for the comparable period in 2011. This increase was due a \$195,000 increase in impairments on securities available for sale, a \$95,000 increase in impairments on mortgage loans on real estate, a \$40,000 increase in impairments on fixed maturity securities held to maturity, and a \$37,000 increase in impairments on other real estate owned held for investment.

Mortgage fee income increased by \$72,948,000, or 94.0%, to \$150,553,000 for 2012, from \$77,605,000 for the comparable period in 2011. This increase was primarily attributable to an increase in secondary gains on mortgage loans sold to investors and an increase in loan volume due to the expansion of the retail loan operations of SecurityNational Mortgage.

Other revenues increased by \$50,000, or 4.5%, to \$1,159,000 for 2012 from \$1,109,000 for the comparable period in 2011. This increase was due to an increase in miscellaneous revenues throughout the Company's operations.

Total benefits and expenses were \$212,909,000, or 90.9% of total revenues, for 2012, as compared to \$158,331,000, or 99.2% of total revenues, for the comparable period in 2011.

Death benefits, surrenders and other policy benefits, and future policy benefits decreased by an aggregate of \$523,000 or 1.1%, to \$45,681,000 for 2012, from \$46,204,000 for the comparable period in 2011. This increase was primarily the result of a \$93,000 increase in death benefits, a \$207,000 increase in surrender and other policy benefits offset by a \$823,000 decrease in future policy benefits.

Amortization of deferred policy and pre-need acquisition costs and value of business acquired decreased by \$320,000, or 5.5%, to \$5,449,000 for 2012, from \$5,769,000 for the comparable period in 2011. This decrease was primarily due to improved persistency in the traditional life and universal life lines of business.

Selling, general and administrative expenses increased by an aggregate of \$53,796,000, or 52.5%, to \$156,310,000 for 2012, from \$102,514,000 for the comparable period in 2011. This increase was the result of an increase in commission expenses of \$36,325,000, from \$47,515,000 in 2011 to \$83,840,000 in 2012, due to an increase in sales in the mortgage operations, life operations and the cemetery operations. Other expenses increased by \$7,253,000 from \$25,157,000 in 2011 to \$32,410,000 in 2012 primarily due to an increase in loan volume by the mortgage operations. Salaries increased by \$5,358,000 from \$23,531,000 in 2011 to \$28,889,000 in 2012, primarily due to an increase in the number of employees. Costs related to funding mortgage loans increased by \$2,691,000 from \$4,240,000 in 2011 to \$6,931,000 in 2012 due primarily to more loans funded as a result of increased demand in the housing sector. Provision for loan losses increased by \$2,169,000 from \$2,070,000 in 2011 to \$4,239,000 in 2012, primarily due to an increase in monthly loan origination volume.

Interest expense increased by \$1,783,000, or 90.9%, to \$3,744,000 for 2012, from \$1,961,000 for the comparable period in 2011. This increase was primarily due to increased outstanding balances on warehouse lines.

Cost of goods and services sold of the cemeteries and mortuaries decreased by \$159,000, or 8.4%, to \$1,724,000 for 2012, from \$1,883,000 for the comparable period in 2011. This decrease was primarily due to a decrease in mortuary at-need sales, which was offset by an increase in cemetery pre-need and at-need sales.

Other comprehensive income for the years ended December 31, 2012 and December 31, 2011 amounted to gains of \$1,280,000 and a loss of \$534,000, respectively. This increase of \$1,814,000 in 2012 was primarily the result a \$1,503,000 increase in unrealized gains in securities available for sale, and a gain of \$311,000 in derivatives related to mortgage loans.

2011 Compared to 2010

Total revenues decreased by \$8,943,000, or 5.3%, to \$159,567,000 for fiscal year 2011 from \$168,510,000 for the fiscal year 2010. Contributing to this decrease in total revenues was a \$19,737,000 decrease in mortgage fee income, a \$759,000 decrease in net cemetery and mortuary sales, a \$472,000 decrease in other revenue, and a \$167,000 increase in other than temporary impairments. This decrease in total revenues was partially offset by a \$9,948,000 increase in insurance premiums and other considerations, a \$1,395,000 increase in net investment income, and an \$849,000 increase in realized gains on investments and other assets.

Insurance premiums and other consideration increased by \$9,948,000, or 25.8%, to \$48,457,000 for 2011, from \$38,509,000 for the comparable period in 2010. This increase was primarily due to the reinsurance transaction with North America Life that was completed in March 2011, an increase in renewal premiums, and an increase in first year premiums due to increased insurance sales.

Net investment income increased by \$1,395,000, or 7.5%, to \$20,011,000 for 2011, from \$18,616,000 for the comparable period in 2010. This increase was primarily attributable to a \$1,002,000 increase in fixed maturity securities income, a \$708,000 increase in interest on mortgage loans on real estate, a \$700,000 increase in income from real estate, a \$33,000 increase in income in equity securities, and a \$26,000 decrease in investment expenses. This increase was partially offset by a \$960,000 decrease in income from short-term investments, and by a \$62,000 decrease in policy loan income.

Net cemetery and mortuary sales decreased by \$759,000, or 6.6%, to \$10,761,000 for 2011, from \$11,520,000 for the comparable period in 2010. This reduction was primarily due to a decline in at-need sales of mortuary operations as a result of the sale of two Arizona funeral homes in 2011.

Realized gains on investments and other assets increased by \$849,000, or 52.6%, to \$2,464,000 in realized gains for 2011, from \$1,615,000 in realized gains for the comparable period in 2010. This increase in realized gains on investments and other assets was primarily due to an \$887,000 gain on the sale of Greer-Wilson Funeral Home and Crystal Rose Funeral Home in 2011, which was partially offset by a decrease in realized gains on fixed maturity securities.

Other than temporary impairments on investments increased by \$167,000, or 24.7%, to \$841,000 for 2011 from \$674,000 for the comparable period in 2010. This increase is due to impairments on other real estate owned held for investment offset by a decrease in impairments on fixed maturity securities held to maturity.

Mortgage fee income decreased by \$19,737,000, or 20.3%, to \$77,605,000 for 2011, from \$97,342,000 for the comparable period in 2010. This decrease was primarily attributable to a decrease in secondary gains on mortgage loans sold to investors and a decrease in loan volume due to a reduced demand in the housing sector caused by the slow growth of the economy.

Other revenues decreased by \$472,000, or 29.9%, to \$1,109,000 for 2011 from \$1,581,000 for the comparable period in 2010. This decrease was due to a reduction in miscellaneous revenues throughout the Company's operations.

Total benefits and expenses were \$158,331,000, or 99.2% of total revenues, for 2011, as compared to \$169,600,000, or 100.6% of total revenues, for the comparable period in 2010.

Death benefits, surrenders and other policy benefits, and increase in future policy benefits increased by an aggregate of \$8,258,000 or 21.8%, to \$46,204,000 for 2011, from \$37,946,000 for the comparable period in 2010. This increase was primarily the result of increased future policy benefits, increased death benefits, and increased surrender and other

policy benefits primarily due to the reinsurance transaction with North America Life Insurance Company.

Amortization of deferred policy and pre-need acquisition costs and value of business acquired increased by \$1,338,000, or 30.2%, to \$5,769,000 for 2011, from \$4,431,000 for the comparable period in 2010. This increase was primarily due to the reinsurance transaction with North America Life Insurance Company and an increase in business in force.

Selling, general and administrative expenses decreased by an aggregate of \$19,704,000, or 16.1%, to \$102,514,000 for 2011, from \$122,218,000 for the comparable period in 2010. This decrease was the result of a reduction in commission expenses of \$10,925,000, from \$58,440,000 in 2010 to \$47,515,000 in 2011, due to a decrease in sales in the mortgage operations and the cemetery operations, which was partially offset by an increase in life insurance first year and renewal commissions during 2011. Salaries decreased by \$2,875,000 from \$26,406,000 in 2010 to \$23,531,000 in 2011, primarily due to a reduction in the number of employee equivalents. Provision for loan losses decreased by \$3,334,000 from \$5,404,000 in 2010 to \$2,070,000 in 2011, primarily due to a decrease in monthly loan origination volume and a reduction in investor demands due to previous settlements. Costs related to funding mortgage loans decreased by \$1,804,000 from \$6,044,000 in 2010 to \$4,240,000 in 2011 due primarily to fewer loans funded as a result of reduced demand in the housing sector. Other expenses decreased by \$766,000 from \$25,923,000 in 2010 to \$25,157,000 in 2011.

Interest expense decreased by \$818,000, or 29.4%, to \$1,961,000 for 2011, from \$2,779,000 for the comparable period in 2010. This reduction was primarily due to decreased outstanding balances on warehouse lines.

Cost of goods and services sold of the cemeteries and mortuaries decreased by \$343,000, or 15.4%, to \$1,883,000 for 2011, from \$2,226,000 for the comparable period in 2010. This decrease was primarily due to decreased at-need cemetery sales and mortuary sales.

Other comprehensive income for the years ended December 31, 2011 and December 31, 2010 amounted to losses of \$534,000 and \$405,000, respectively. This decrease of \$129,000 in 2011 was primarily the result of a \$1,123,000 decrease in unrealized gains in securities available for sale, and a gain of \$994,000 in derivatives related to mortgage loans.

Risks

The following is a description of the most significant risks facing the Company and how it mitigates those risks:

Legal and Regulatory Risks - The risk that changes in the legal or regulatory environment in which the Company operates will create additional expenses and/or risks not anticipated by the Company in developing and pricing its products. That is, regulatory initiatives designed to reduce insurer profits, new legal theories or insurance company insolvencies through guaranty fund assessments may create costs for the insurer beyond those recorded in the consolidated financial statements. In addition, changes in tax law with respect to mortgage interest deductions or other public policy or legislative changes may affect the Company's mortgage sales. Also, the Company may be subject to further regulations in the cemetery/mortuary business. The Company mitigates these risks by offering a wide range of products and by diversifying its operations, thus reducing its exposure to any single product or jurisdiction, and also by employing underwriting practices which identify and minimize the adverse impact of such risks.

Mortgage Industry Risks - Developments in the mortgage industry and credit markets adversely affected the Company's ability to sell certain of its mortgage loans to investors, which impacted the Company's financial results by requiring it to assume the risk of holding and servicing many of these loans.

The mortgage loan loss reserve is an estimate of probable losses at the balance sheet date that the Company will realize in the future on mortgage loans sold to third party investors. SecurityNational Mortgage may be required to reimburse third party investors for costs associated with early payoff of loans within the first six months of such loans and to repurchase loans where there is a default in any of the first four monthly payments to the investors or, in lieu of repurchase, to pay a negotiated fee to the investors. SecurityNational Mortgage's estimates are based upon historical loss experience and the best estimate of the probable loan loss liabilities.

Upon completion of a transfer that satisfies the conditions to be accounted for as a sale, SecurityNational Mortgage initially measures at fair value liabilities incurred in a sale relating to any guarantee or recourse provisions. SecurityNational Mortgage accrues a monthly allowance for indemnification losses to investors based on SecurityNational Mortgage's historical experience. The amounts accrued for loan losses in years ended December 31, 2012, 2011 and 2010 were \$4,053,000, \$1,668,000 and \$4,534,000, respectively, and the charge to expense has been included in selling, general and administrative expenses. The estimated liability for indemnification losses is included in other liabilities and accrued expenses and, as of December 31, 2012 and 2011, the balances were \$6,035,000 and \$2,338,000, respectively. The Company believes the allowance for loan losses and the loan loss reserve represent probable loan losses incurred as of December 31, 2012. However, there is a risk that future loan losses may exceed the loan loss reserves and allowances.

As of December 31, 2012, the Company's long term mortgage loan portfolio consisted of \$11,679,000 in mortgage loans with delinquencies more than 90 days. Of this amount, \$6,039,000 of the loans were in foreclosure proceedings. The Company has not received or recognized any interest income on the \$11,679,000 in mortgage loans with delinquencies more than 90 days. During the twelve months ended December 31, 2012 and 2011, SecurityNational Mortgage increased its allowance for mortgage losses by \$434,000 and \$1,236,000, respectively, which was charged to loan loss expense and is included in selling, general and administrative expenses for the period. The allowances for mortgage loan losses as of December 31, 2012 and 2011 were \$4,240,000 and \$4,881,000, respectively.

There have been assertions in third party investor correspondence that SecurityNational Mortgage sold mortgage loans that allegedly contained misrepresentations or experienced early payment defaults, or that were otherwise allegedly defective or not in compliance with agreements between SecurityNational Mortgage and the third party investors consisting principally of financial institutions. As a result of these claims, third party investors have made demands that SecurityNational Mortgage repurchase certain alleged defective mortgage loans that were sold to such investors or indemnify them against any losses related to such loans.

The total amount of potential claims and notices of potential claims are greater than the net asset value of SecurityNational Mortgage, which was \$26,835,000 on December 31, 2012, and its reserve for mortgage loan loss, which was \$6,035,000 on December 31, 2012. SecurityNational Mortgage disagrees with the claims and notices of potential claims asserted by third party investors against it and believes it has significant defenses to these claims. Any additional losses in excess of the current loan loss reserve cannot be estimated as SecurityNational Mortgage is currently in the process of reviewing repurchase demands and notices of potential claims from third party investors.

If SecurityNational Mortgage is unable to resolve demands by the third party investors on acceptable terms, legal action may ensue in an effort to obtain amounts that the third party investors claim are allegedly due. In the event of legal action, if SecurityNational Mortgage is not successful in its defenses against claims asserted by these third party investors to the extent that a substantial judgment is entered against SecurityNational Mortgage which is beyond its capacity to pay, SecurityNational Mortgage may be required to curtail or cease operations.

Also at December 31, 2012, the Company had foreclosed on a total of \$60,710,000 in long term mortgage loans, of which \$17,020,000 of the loans foreclosed were reclassified as other real estate held for investment or sale during 2012. The Company carries the foreclosed properties in Security National Life, Memorial Estates, and SecurityNational Mortgage, its respective life, cemeteries and mortuaries, and mortgage subsidiaries, and will rent the properties until it is deemed economically desirable to sell them.

Interest Rate Risk - the risk that interest rates will change which may cause a decrease in the value of the Company's investments or impair the ability of the Company to market its mortgage and cemetery/mortuary products. This change in rates may cause certain interest-sensitive products to become uncompetitive or may cause disintermediation. The Company mitigates this risk by charging fees for non-conformance with certain policy provisions, by offering products that transfer this risk to the purchaser, and/or by attempting to match the maturity schedule of its assets with the expected payouts of its liabilities. To the extent that liabilities come due more quickly than assets mature, the Company might have to borrow funds or sell assets prior to maturity and potentially recognize a loss on the sale.

Mortality/Morbidity Risk - the risk that the Company's actuarial assumptions may differ from actual mortality/morbidity experience may cause the Company's products to be underpriced, may cause the Company to liquidate insurance or other claims earlier than anticipated and other potentially adverse consequences to the business. The Company minimizes this risk through sound underwriting practices, asset/liability duration matching, and sound actuarial practices.

Estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

The estimates susceptible to significant change are those used in determining the liability for future policy benefits and claims, those used in determining valuation allowances for mortgage loans on real estate, construction loans, estimate of probable loan loss reserve, and other receivables, and those used in determining the estimated future costs for pre-need sales. Although some variability is inherent in these estimates, management believes the amounts

provided are adequate.

Liquidity and Capital Resources

The Company's life insurance subsidiaries and cemetery and mortuary subsidiaries realize cash flow from premiums, contract payments and sales on personal services rendered for cemetery and mortuary business, from interest and dividends on invested assets, and from the proceeds from the maturity of held to maturity investments or sale of other investments. The mortgage subsidiary realizes cash flow from fees generated by originating and refinancing mortgage loans and interest earned on mortgages sold to investors. The Company considers these sources of cash flow to be adequate to fund future policyholder and cemetery and mortuary liabilities, which generally are long-term, and adequate to pay current policyholder claims, annuity payments, expenses on the issuance of new policies, the maintenance of existing policies, debt service, and to meet operating expenses.

During the twelve months ended December 31, 2012 and 2011, the Company's operations provided cash of \$22,416,000 and \$6,866,000, respectively. This was due primarily to an \$18,808,000 increase in 2012 and an increase of \$15,145,000 in 2011 in the balance of mortgage loans sold to investors and a \$12,086,000 increase in 2012 and an \$830,000 decrease in 2011 in other liabilities.

The Company's liability for future life, annuity and other benefits is expected to be paid out over long-term due to the Company's market niche of selling funeral plans. Funeral plans are small face value life insurance that will pay the costs and expenses incurred at the time of a person's death. A person generally will keep these policies in force and will not surrender them prior to a person's death. Because of the long-term nature of these liabilities the Company is able to hold to maturity its bonds, real estate and mortgage loans thus reducing the risk of liquidating these long-term investments as a result of any sudden changes in market values.

The Company attempts to match the duration of invested assets with its policyholder and cemetery and mortuary liabilities. The Company may sell investments other than those held to maturity in the portfolio to help in this timing. The Company purchases short-term investments on a temporary basis to meet the expectations of short-term requirements of the Company's products.

The Company's investment philosophy is intended to provide a rate of return, which will persist during the expected duration of policyholder and cemetery and mortuary liabilities regardless of future interest rate movements.

The Company's investment policy is to invest predominantly in fixed maturity securities, mortgage loans, and warehousing of mortgage loans on a short-term basis before selling the loans to investors in accordance with the requirements and laws governing the life insurance subsidiaries. Bonds owned by the insurance subsidiaries amounted to \$127,939,000 as of December 31, 2012 compared to \$126,068,000 as of December 31, 2011. This represents 36.9% and 37.9% of the total investments as of December 31, 2012, and December 31, 2011, respectively. Generally, all bonds owned by the life insurance subsidiaries are rated by the National Association of Insurance Commissioners. Under this rating system, there are six categories used for rating bonds. At December 31, 2012, 3.4% (or \$4,392,000) and at December 31, 2011, 4.1% (or \$5,182,000) of the Company's total bond investments were invested in bonds in rating categories three through six, which are considered non-investment grade.

The Company has classified certain of its fixed income securities, including high-yield securities, in its portfolio as available for sale, with the remainder classified as held to maturity. However, in accordance with Company policy, any such securities purchased in the future will be classified as held to maturity. Business conditions, however, may develop in the future which may indicate a need for a higher level of liquidity in the investment portfolio. In that event the Company believes it could sell short-term investment grade securities before liquidating higher yielding longer-term securities.

See Note 2 of the Notes to Consolidated Financial Statements for the schedule of the maturity of fixed maturity securities and for the schedule of principal payments for mortgage loans on real estate and construction loans held for investment.

If market conditions were to cause interest rates to change, the market value of the fixed income portfolio (of approximately \$234,919,000) could change by the following amounts based on the respective basis point swing (the change in the market values were calculated using a modeling technique):

	-200 bps	-100 bps	+100 bps	+200 bps
Change in Market Value (in thousands) \$	\$ 18,360	\$ 9,617		\$ (12,945) \$ (23,179)

The Company is subject to risk based capital guidelines established by statutory regulators requiring minimum capital levels based on the perceived risk of assets, liabilities, disintermediation, and business risk. At December 31, 2012, and December 31, 2011, the life insurance subsidiaries exceeded the regulatory criteria.

The Company's total capitalization of stockholders' equity, and bank debt and notes payable were \$91,722,000 as of December 31, 2012, as compared to \$86,250,000 as of December 31, 2011. Stockholders' equity as a percent of total capitalization was 87.0% and 71.0% as of December 31, 2012 and December 31, 2011, respectively. Bank debt and notes payable decreased \$13,109,000 for the twelve months ended December 31, 2012 when compared to December 31, 2011, thus increasing the stockholders equity percentage.

Lapse rates measure the amount of insurance terminated during a particular period. The Company's lapse rate for life insurance in 2012 was 6.0% as compared to a rate of 6.5% for 2011.

At December 31, 2012, \$32,992,000 of the Company's consolidated stockholders' equity represents the statutory stockholders' equity of the Company's life insurance subsidiaries. The life insurance subsidiaries cannot pay a dividend to its parent company without the approval of insurance regulatory authorities.

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements to encourage companies to provide prospective information about their businesses without fear of litigation so long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected in such statements. The Company desires to take advantage of the "safe harbor" provisions of the act.

This Annual Report on Form 10-K contains forward-looking statements, together with related data and projections, about the Company's projected financial results and its future plans and strategies. However, actual results and needs of the Company may vary materially from forward-looking statements and projections made from time to time by the Company on the basis of management's then-current expectations. The business in which the Company is engaged involves changing and competitive markets, which may involve a high degree of risk, and there can be no assurance that forward-looking statements and projections will prove accurate.

Factors that may cause the Company's actual results to differ materially from those contemplated or projected, forecast, estimated or budgeted in such forward looking statements include among others, the following possibilities: (i) heightened competition, including the intensification of price competition, the entry of new competitors, and the introduction of new products by new and existing competitors; (ii) adverse state and federal legislation or regulation, including decreases in rates, limitations on premium levels, increases in minimum capital and reserve requirements, benefit mandates and tax treatment of insurance products; (iii) fluctuations in interest rates causing a reduction of investment income or increase in interest expense and in the market value of interest rate sensitive investment; (iv) failure to obtain new customers, retain existing customers or reductions in policies in force by existing customers; (v) higher service, administrative, or general expense due to the need for additional advertising, marketing, administrative or management information systems expenditures; (vi) loss or retirement of key executives or employees; (vii) increases in medical costs; (viii) changes in the Company's liquidity due to changes in asset and liability matching; (ix) restrictions on insurance underwriting based on genetic testing and other criteria; (x) adverse changes in the ratings obtained by independent rating agencies; (xi) failure to maintain adequate reinsurance; (xii) possible claims relating to sales practices for insurance products and claim denials and (xiii) adverse trends in mortality and morbidity; (xiv) deterioration of real estate markets and (xv) lawsuits in the ordinary course of business.

Off-Balance Sheet Agreements

At December 31, 2012, the Company was contingently liable under a standby letter of credit aggregating \$458,224, to be used as collateral to cover any contingency related to additional risk assessments pertaining to the Company's self-insurance casualty program. The Company does not expect any material losses to result from the issuance of the standby letter of credit because claims are not expected to exceed premiums paid. Accordingly, the estimated fair value of these instruments is zero.

At December 31, 2012, SecurityNational Mortgage was contingently liable under a standby letter of credit aggregating \$1,250,000, to be used as collateral to cover any contingency related to claims filed in states where SecurityNational Mortgage is licensed. SecurityNational Mortgage does not expect any material losses to result from the issuance of the

standby letter of credit. Accordingly, the estimated fair value of these instruments is zero.

SecurityNational Mortgage has entered into loan purchase agreements to originate and sell mortgage loans to two unaffiliated warehouse banks. On March 19, 2012, SecurityNational Mortgage and Wells Fargo Bank, N.A. (“Wells Fargo”) entered into a loan purchase agreement in which Wells Fargo agreed to provide a warehouse line of up to \$55,000,000 to fund certain approved mortgage loans originated by SecurityNational Mortgage. On August 6, 2012, SecurityNational Mortgage and Wells Fargo agreed to an amendment to the March 19, 2012 loan purchase agreement to increase the amount of the warehouse line available to fund mortgage loans originated by SecurityNational Mortgage from \$55,000,000 to \$75,000,000.

On July 16, 2012, SecurityNational Mortgage and UBS Real Estate Securities Inc. (“UBS”) entered into a loan purchase agreement in which UBS agreed to provide a warehouse line of up to \$30,000,000 to fund mortgage loans originated by SecurityNational Mortgage. On October 26, 2012, SecurityNational Mortgage and UBS agreed to an amendment to the July 16, 2012 loan purchase agreement to increase the amount of the warehouse line available to fund mortgage loans originated by SecurityNational Mortgage from \$30,000,000 to \$40,000,000.

As of December 31, 2012, there was \$201,681,000 in mortgage loans in which settlements with third party investors were still pending.

The total of the Company unfunded residential construction loan commitments as of December 31, 2012 was \$431,000.

Contractual Obligations

The Company’s contractual obligations as of December 31, 2012 and the payments due by period are shown in the following table:

	Less than 1 year	1-3 years	4-5 years	over 5 years	Total
Non-cancelable operating leases	\$ 2,242,899	\$ 4,013,867	\$ 957,931	\$ 13,797	\$ 7,228,494
Notes and contracts payable	6,266,765	5,435,939	161,704	45,935	11,910,343
	\$ 8,509,664	\$ 9,449,806	\$ 1,119,635	\$ 59,732	\$ 19,138,837

Variable Interest Entities

In conjunction with the Company’s casualty insurance program, limited equity interests are held in a captive insurance entity. This program permits the Company to self-insure a portion of losses, to gain access to a wide array of safety-related services, to pool insurance risks and resources in order to obtain more competitive pricing for administration and reinsurance and to limit its risk of loss in any particular year. This entity meets the definition of a variable interest entity (VIE); however, under generally accepted accounting principles, “there is not a requirement to include this entity in the consolidated financial statements.” The maximum exposure to loss related to the Company’s involvement with this entity is limited to approximately \$458,224, a majority of which is collateralized under a standby letter of credit issued on the insurance entity’s behalf. See Note 9, “Reinsurance, Commitments and Contingencies,” for additional discussion of commitments associated with the insurance program and Note 1, “Significant Accounting Policies”, for further information on a standby letter of credit. As of December 31, 2012, there are no other entities that met the definition of a variable interest entity.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The Company has no activities in derivative financial or commodity instruments other than those recorded and disclosed in the financial statements. See Note 18 of the consolidated financial statements included elsewhere in this Form 10-K. The Company’s exposure to market risks (i.e., interest rate risk, foreign currency exchange rate risk and equity price risk) through other financial instruments, including cash equivalents, accounts receivable and lines of credit, is not material.

Item 8. Financial Statements and Supplementary Data

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All other schedules to the Consolidated Financial Statements required by Article 7 of Regulation S-X are not required under the related instructions or are inapplicable and therefore have been omitted.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and the Shareholders
Security National Financial Corporation

We have audited the accompanying consolidated balance sheets of Security National Financial Corporation and subsidiaries as of December 31, 2012 and 2011 and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Security National Financial Corporation and subsidiaries as of December 31, 2012 and 2011 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Supplemental Schedules II, IV and V, are presented for purpose of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

HANSEN, BARNETT & MAXWELL, P.C.

Salt Lake City, Utah
March 29, 2013

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

Assets	December 31	
	2012	2011
Investments:		
Fixed maturity securities, held to maturity, at amortized cost	\$ 129,449,410	\$ 127,579,087
Equity securities, available for sale, at estimated fair value	5,405,112	6,299,392
Mortgage loans on real estate and construction loans held for investment, net of allowances for losses of \$4,239,861 and \$4,881,173 for 2012 and 2011	84,462,205	115,155,967
Real estate held for investment, net of accumulated depreciation of \$4,499,705 and \$4,189,641 for 2012 and 2011	3,543,751	3,786,780
Other real estate owned held for investment, net of accumulated depreciation of \$2,941,713 and \$1,810,238 for 2012 and 2011	55,027,669	46,398,095
Other real estate owned held for sale	5,682,610	5,793,900
Policy, student and other loans net of allowance for doubtful accounts of \$505,030 and \$427,136 for 2012 and 2011	20,188,516	18,463,277
Short-term investments	40,925,390	6,932,023
Accrued investment income	2,393,941	2,323,080
Total investments	347,078,604	332,731,601
Cash and cash equivalents	38,906,115	17,083,604
Mortgage loans sold to investors	94,597,969	77,339,445
Receivables, net	16,559,277	9,911,961
Restricted assets of cemeteries and mortuaries	3,955,127	3,392,497
Cemetery perpetual care trust investments	2,090,111	1,810,185
Receivable from reinsurers	14,529,144	7,678,119
Cemetery land and improvements	11,079,755	11,105,809
Deferred policy and pre-need contract acquisition costs	39,913,465	38,001,833
Mortgage servicing rights	2,797,470	-
Property and equipment, net	11,033,957	9,300,185
Value of business acquired	9,829,082	10,996,050
Goodwill	677,039	677,039
Other	4,169,508	3,022,113
Total Assets	\$ 597,216,623	\$ 523,050,441

See accompanying notes to consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Continued)

	December 31	
	2012	2011
Liabilities and Stockholders' Equity		
Liabilities		
Future life, annuity, and other benefits	\$438,003,813	\$383,507,087
Unearned premium reserve	5,383,800	5,030,443
Bank and other loans payable	11,910,343	25,019,119
Deferred pre-need cemetery and mortuary contract revenues	13,412,339	13,140,483
Cemetery perpetual care obligation	3,153,001	2,983,077
Accounts payable	2,715,834	2,672,479
Other liabilities and accrued expenses	24,902,086	14,456,887
Income taxes	17,923,298	15,010,279
Total liabilities	517,404,514	461,819,854
Commitments and Contingencies	-	-
Stockholders' Equity		
Common Stock:		
Class A: common stock - \$2.00 par value; 20,000,000 shares authorized; issued 10,843,576 shares in 2012 and 9,638,798 shares in 2011	21,687,152	19,277,596
Class B: non-voting common stock - \$1.00 par value; 5,000,000 shares authorized; none issued or outstanding	-	-
Class C: convertible common stock - \$0.20 par value; 15,000,000 shares authorized; issued 10,974,101 shares in 2012 and 10,135,976 shares in 2011	2,194,820	2,027,195
Additional paid-in capital	21,262,140	19,487,565
Accumulated other comprehensive income, net of taxes	1,934,359	654,443
Retained earnings	35,114,072	22,546,623
Treasury stock, at cost - 1,097,416 Class A shares and -0- Class C shares in 2012; 1,198,167 Class A shares and -0- Class C shares in 2011	(2,380,434)	(2,762,835)
Total stockholders' equity	79,812,109	61,230,587
Total Liabilities and Stockholders' Equity	\$597,216,623	\$523,050,441

See accompanying notes to consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS

	Years Ended December 31		
	2012	2011	2010
Revenues:			
Insurance premiums and other considerations	\$48,216,327	\$48,457,405	\$38,509,198
Net investment income	23,250,154	20,010,704	18,615,984
Net mortuary and cemetery sales	10,864,497	10,761,469	11,520,369
Realized gains on investments and other assets	1,424,510	2,464,353	1,615,418
Other than temporary impairments	(1,207,632)	(840,735)	(673,981)
Mortgage fee income	150,553,261	77,605,105	97,342,215
Other	1,159,052	1,108,969	1,581,115
Total revenues	234,260,169	159,567,270	168,510,318
Benefits and expenses:			
Death benefits	22,277,037	22,184,112	19,350,176
Surrenders and other policy benefits	1,969,051	1,761,608	1,575,812
Increase in future policy benefits	21,435,191	22,258,241	17,020,086
Amortization of deferred policy and pre-need acquisition costs and value of business acquired	5,449,429	5,769,348	4,431,076
Selling, general and administrative expenses:			
Commissions	83,840,427	47,514,804	58,439,664
Salaries	28,889,112	23,531,407	26,406,153
Provision for loan losses and loss reserve	4,239,418	2,070,399	5,404,645
Costs related to funding mortgage loans	6,931,045	4,240,377	6,044,020
Other	32,409,918	25,156,515	25,923,413
Interest expense	3,744,293	1,961,249	2,778,920
Cost of goods and services sold – mortuaries and cemeteries	1,723,955	1,882,657	2,225,773
Total benefits and expenses	212,908,876	158,330,717	169,599,738
Earnings (loss) before income taxes	21,351,293	1,236,553	(1,089,420)
Income tax benefit (expense)	(4,638,775)	62,205	658,796
Net earnings (loss)	\$16,712,518	\$1,298,758	\$(430,624)
Net earnings (loss) per Class A equivalent common share (1)	\$1.65	\$0.13	\$(0.04)
Net earnings (loss) per Class A equivalent common share - assuming dilution(1)	\$1.57	\$0.13	\$(0.04)
Weighted average Class A equivalent common shares outstanding (1)	10,134,728	9,893,962	9,688,067
Weighted average Class A equivalent common shares outstanding-assuming dilution (1)	10,678,294	10,001,909	9,688,067

(1) Earnings per share amounts have been adjusted retroactively for the effect of annual stock dividends. The weighted-average shares outstanding includes the weighted-average Class A common shares and the weighted-average Class C common shares determined on an equivalent Class A common stock basis. Net earnings per common share represent net earnings per equivalent Class A common share. Net earnings per Class C common share is equal to one-tenth (1/10) of such amount or \$0.16, \$0.01 and \$0.00 per share for 2012, 2011 and 2010, respectively, and \$0.15, \$0.01 and \$0.00 per share-assuming dilution for 2012, 2011 and 2010, respectively.

See accompanying notes to consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2012	2011	2010
Net earnings (loss)	\$16,712,518	\$1,298,758	\$(430,624)
Other comprehensive income:			
Changes in:			
Net unrealized gains (losses) on derivative instruments	852,168	541,335	(452,430)
Net unrealized gains (losses) on available for sale securities	427,748	(1,075,138)	47,349
Other comprehensive gain (loss)	1,279,916	(533,803)	(405,081)
Comprehensive income (loss)	\$17,992,434	\$764,955	\$(835,705)

See accompanying notes to consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2012, 2011 and 2010

	Class A Common Stock	Class C Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total
Balance at January 1, 2010	\$17,460,454	\$1,842,842	\$19,191,606	\$1,593,327	\$23,178,944	\$(3,461,731)	\$59,805,442
Net loss	-	-	-	-	(430,624)	-	(430,624)
Other comprehensive loss	-	-	-	(405,081)	-	-	(405,081)
Grant of stock options	-	-	520,457	-	-	-	520,457
Exercise stock options	20,348	-	(20,348)	-	-	-	-
Sale of treasury stock	-	-	123,814	-	-	314,460	438,274
Stock dividends	874,276	92,002	(125,537)	-	(840,741)	-	-
Conversion Class C to Class A	2,812	(2,813)	1	-	-	-	-
Balance at December 31, 2010	18,357,890	1,932,031	19,689,993	1,188,246	21,907,579	(3,147,271)	59,928,468
Net earnings	-	-	-	-	1,298,758	-	1,298,758
Other comprehensive loss	-	-	-	(533,803)	-	-	(533,803)
Grant of stock options	-	-	253,934	-	-	-	253,934
Exercise of stock options	-	-	-	-	-	-	-
Sale of treasury stock	-	-	(101,206)	-	-	384,436	283,230
Stock dividends	918,336	96,535	(355,157)	-	(659,714)	-	-
Conversion Class C to Class A	1,370	(1,371)	1	-	-	-	-
Balance at December 31, 2011	19,277,596	2,027,195	19,487,565	654,443	22,546,623	(2,762,835)	61,230,587

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Net earnings	-	-	-	-	16,712,518	-	16,712,518
Other comprehensive income	-	-	-	1,279,916	-	-	1,279,916
Grant of stock options	-	-	251,031	-	-	-	251,031
Exercise of stock options	1,371,506	63,782	(1,416,982)	-	-	-	18,306
Sale of treasury stock	-	-	(62,650)	-	-	382,401	319,751
Stock dividends	1,037,404	104,488	3,003,177	-	(4,145,069)	-	-
Conversion Class C to Class A	646	(645)	(1)	-	-	-	-
Balance at December 31, 2012	\$21,687,152	\$2,194,820	\$21,262,140	\$1,934,359	\$35,114,072	\$(2,380,434)	\$79,812,109

See accompanying notes to consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2012	2011	2010
Cash flows from operating activities:			
Net earnings (loss)	\$16,712,518	\$1,298,758	\$(430,624)
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:			
Realized gains on investments and other assets	(1,424,510)	(2,464,353)	(1,615,418)
Other than temporary impairments	1,207,632	840,735	673,981
Depreciation and amortization	2,877,743	2,814,585	2,917,513
Provision for losses on real estate accounts and loans receivable	(963,169)	1,644,171	(198,062)
Amortization of premiums and discounts	(762,301)	(539,896)	(19,505)
Provision for deferred and other income taxes	953,394	524,868	(1,197,023)
Policy and pre-need acquisition costs deferred	(7,885,882)	(6,806,486)	(6,956,154)
Policy and pre-need acquisition costs amortized	4,234,271	4,624,148	3,710,602
Value of business acquired amortized	1,215,158	1,145,200	720,474
Servicing asset at amortized cost, additions	(2,797,470)	-	-
Stock based compensation expense	251,031	253,934	520,457
Benefit plans funded with treasury stock	319,751	283,230	438,274
Change in assets and liabilities:			
Land and improvements held for sale	26,054	(9,680)	(108,296)
Future life and other benefits	20,508,725	22,262,508	18,357,044
Receivables for mortgage loans sold	(18,807,956)	(15,144,933)	(23,957,088)
Other operating assets and liabilities	6,751,217	(3,860,964)	(7,107,055)
Net cash provided by (used in) operating activities	22,416,206	6,865,825	(14,250,880)
Cash flows from investing activities:			
Securities held to maturity:			
Purchase - fixed maturity securities	(11,365,269)	(50,566,004)	(8,251,365)
Calls and maturities - fixed maturity securities	9,601,320	21,631,908	27,878,797
Securities available for sale:			
Purchase - equity securities	(1,685,983)	(4,574,717)	(5,462,028)
Sales - equity securities	3,028,509	4,161,140	5,014,194
Purchases of short-term investments	(51,823,941)	(70,895,829)	(9,590,929)
Sales of short-term investments	17,830,574	66,582,155	14,115,870
Sales (purchases) of restricted assets	(525,978)	(338,310)	(441,441)
Change in assets for perpetual care trusts	(265,435)	(266,056)	(282,605)
Amount received for perpetual care trusts	169,924	129,350	97,553
Mortgage, policy, and other loans made	(117,135,836)	(127,867,064)	(102,328,203)
Payments received for mortgage, policy, and other loans	131,565,100	103,865,163	97,675,289
Purchases of property and equipment	(3,022,393)	(765,633)	(859,988)
Disposal of property and equipment	30,524	2,296,247	-
Purchases of real estate	(143,278)	(441,444)	(1,813,784)
Sale of real estate	6,886,821	2,605,454	6,424,961
Cash received from reinsurance	34,485,224	12,990,444	-
Cash paid for purchase of subsidiaries, net of cash acquired	(180,591)	-	-

Net cash provided by (used in) investing activities	17,449,292	(41,453,196)	22,176,321
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See accompanying notes to consolidated financial statements

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

	Years Ended December 31		
	2012	2011	2010
Cash flows from financing activities:			
Annuity contract receipts	\$8,939,017	\$7,967,701	\$8,428,798
Annuity contract withdrawals	(13,915,777)	(13,910,925)	(14,372,244)
Proceeds from stock options exercised	18,306	-	-
Repayment of bank loans and notes and contracts payable	(1,534,612)	(1,957,389)	(1,889,295)
Proceeds from bank borrowings	241,875	3,615,085	-
Change in line of credit borrowings	(11,791,796)	16,400,000	-
Net cash provided by (used in) financing activities	(18,042,987)	12,114,472	(7,832,741)
Net change in cash and cash equivalents	21,822,511	(22,472,899)	92,700
Cash and cash equivalents at beginning of year	17,083,604	39,556,503	39,463,803
Cash and cash equivalents at end of year	\$38,906,115	\$17,083,604	\$39,556,503
Non Cash Investing and Financing Activities			